

STATE LIBRARY OF PENNSYLVANIA

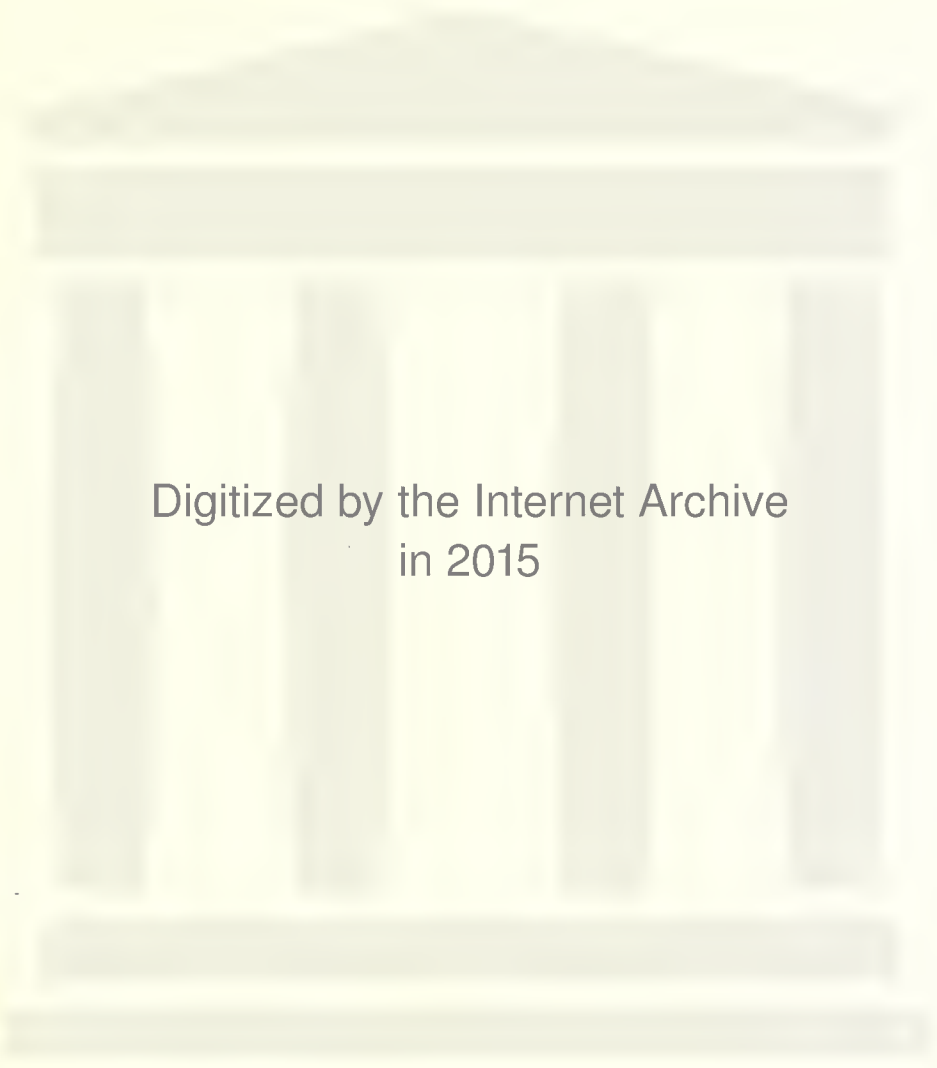


3 0144 00379974 9

REFERENCE



COLLECTIONS



Digitized by the Internet Archive
in 2015

Publications of the
Carnegie Endowment for International Peace
Division of Economics and History

ECONOMIC AND SOCIAL HISTORY OF THE WORLD WAR

British Series

JAMES T. SHOTWELL, PH.D., LL.D.

GENERAL EDITOR

With the Collaboration of the

BRITISH EDITORIAL BOARD

Sir William H. Beveridge, K.C.B., M.A., B.C.L. (*Chairman*)

F. W. Hirst, Esq.

Thomas Jones, M.A., LL.D.

J. M. Keynes, C.B., M.A., F.B.A.

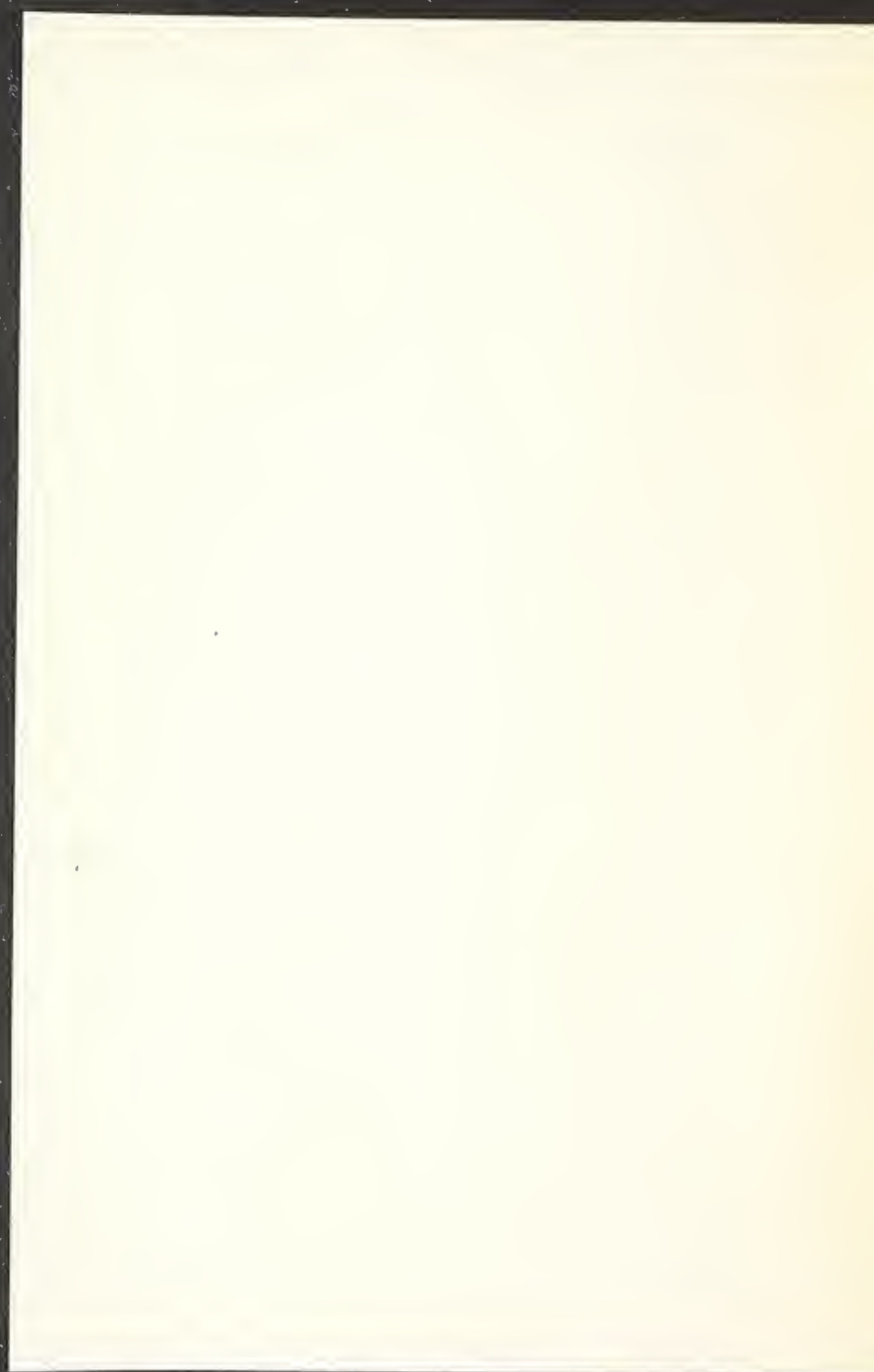
Professor W. R. Scott, D.Phil., Litt.D., LL.D., F.B.A.

Professor J. T. Shotwell (*ex officio*)

*With the Compliments
of the
Carnegie Endowment for International Peace*

700 JACKSON PLACE, N.W.,
WASHINGTON, D. C., U. S. A.

An acknowledgment of the receipt of this publication will be appreciated



THE CONSEQUENCES
OF THE WAR
TO GREAT BRITAIN

BY

FRANCIS W. HIRST

LONDON : HUMPHREY MILFORD
OXFORD UNIVERSITY PRESS
NEW HAVEN : YALE UNIVERSITY PRESS

1934

PRINTED IN GREAT BRITAIN

EDITOR'S PREFACE

THIS is the concluding volume of the British Series in the 'Economic and Social History of the World War'. Begun just after the treaties of peace were signed, this co-operative effort to measure the economic cost of the War and to describe the displacement which it caused in the normal processes of civilization is now approaching completion. It covers, in greater or less detail, the effects of the War upon twenty-one countries. There are 24 volumes in the British Series and some 150 in the History as a whole. Planned with due regard to differences in history and outlook, the various national series differ in method of treatment and in scope; but most of the volumes are in the nature of a contemporary record. They were written by those who played some part in the conduct of affairs during the War, and who, as privileged observers, were able to bring first-hand or second-hand knowledge to bear upon the explanation of those elements in the war-time scheme of things which they described.

These monographs, consisting as they do of authoritative statement and interpretation of facts, should be of value to students of the future, who will often lack any other guide to those aspects of the economy and history of nations during the War. They deal with such subjects as the effect of the War upon governments, political and social conditions, industry, labour, finance, agriculture, commerce, education, health, morals, and crime. The volumes of analysis had to be prepared in the early post-war days, and for the very reason which has made it necessary to postpone the synthesis. The data had to be gathered and registered while it was still, to some extent, in its war-time environment, before the memory of the insistent need or harrowing anxieties of the critical days had become dimmed or obscured by later, peace-time preoccupations. On the other hand, the ultimate effect of war-time measures upon the fortunes of nations and the ways of living and thinking of their citizens could not be divined in the midst of the stress and strain of action. Even events themselves change their contours in the lengthening perspectives of history. It was not

until the world depression had liquidated the post-war prosperity that one could see how the impact of the War had loosened the very bases of stable economic relationships.

Looking over the British Series as a whole, I am glad to be able to agree with Mr. Hirst that the principles tested by previous experience and imprinted with the authority of great economists and social, moral, and political philosophers have survived the mighty cataclysm which seemed at first to have shattered all preconceived notions. No doubt in every country afflicted by the War, the dictatorship or quasi-dictatorship rode roughshod over many institutions and rights and privileges which had been held sacrosanct. In England even the Magna Charta and the Habeas Corpus Act were set aside by the rules and regulations issued under the Defence of the Realm Act. International law and the rules of war by land, sea, and air were reduced to chaos. The press censorship put an end to many forms of criticism, and at one time it seemed doubtful whether the liberties of the individual and the rights of citizens would ever be fully restored. The same story holds for every warring country.

But violent as were the disturbances and the reversals of the old order, the moral and political bases of thought and action remained; and when the stress and strain of the War was over, publicists, economists, moral and social philosophers resumed their work, classified the new phenomena, and gradually convinced themselves and others that the laws of logic, the rules of life, and the accumulated wisdom of past experience, and above all, common sense, still remained, and that the new experiences, frightful and terrifying as they were, had been temporary and not destructive of the old.

These are the conclusions which the historian will draw from the combined testimony of the specialized studies of the British Series. It is well to emphasize this fact because some of the monographs, if taken by themselves, might seem to point in the opposite direction. The economics of war released complex forces of national life not only for the processes of destruction but also for the stimulation of new capacities for production. This new economic activity,

mobilized and purposeful, seemed to many at the time largely to counterbalance war loss and, together with the transfer and shifting of wealth, to explain the surprising extent to which the belligerent nations were able to endure the long and increasing hardships of the War. It would be a wholly false picture which would leave these elements out, and yet a still falser picture if they were to be viewed apart from their context and from their ultimate consequences.

The present volume does not attempt to add up the balance sheet of such intricate reckoning. That has been already partly done in some of the earlier volumes. It does not engage in a systematic re-survey of all these varied phases of British War history. But with them in the background the author lets his mind run freely over the history of England as he had known it in the pre-war, war-time, and post-war days. If the subjective element is not lacking, it is a point of view which, although personal, is yet representative of much of the serious thought of that generation of British students of public affairs which was called upon to endure the gravest test to which the institutions of democracy have been subjected. It is the World War in retrospect as seen by the exponent of the philosophies of Cobden, Bright, and Gladstone, the associate of John Morley, and the biographer of Jefferson.

The British Series of the 'Economic and Social History of the World War' falls into three main categories: works of reference, descriptions of the war-time management of vast national concerns, and sectional studies of economic and social history. Among the works of reference may be mentioned such guides as *British Archives and the Sources for the History of the World War* by the late Dr. Hubert Hall, one of a number of studies in the archival problem of the preservation of source material, and two works by Dr. N. B. Dearle, *Dictionary of Official War-Time Organizations*, the only descriptive list in existence of those elusive bodies which took on so much of war-time administration, and *An Economic Chronicle of the Great War for Great Britain and Ireland, 1914-1919* (with

Supplement 1920-1922). These are concerned with what Bacon called 'experimenta lucifera', as opposed to 'experimenta fructifera'. They are doing spade work, collecting facts. We are told that facts are silent until interpreted by theory; but their collection is a necessary step in establishing a synthesis which shall explain the new conditions brought about by the War.

Of the studies of war-time management, *British Food Control* by Sir William Beveridge deals with that activity of government which most nearly touched the life of the people. It is generally recognized as having been both necessary and successful. Things were done undreamed of by economists. Macaulay pours scorn upon Louis XIV's attempts to provide France with a cheap loaf; but before the end of the Great War practically every kind of food-stuff was under control without 'turning dearth into famine', which Macaulay believed to be the inevitable result of such regulations. In fact, the power of 'the Leviathan' proved far greater than had hitherto been supposed, and organization triumphed over criticism. Even after the end of hostilities the department proved its utility; for when the railway strike broke out in the autumn of 1919, its organization served to provide the people with food at a very difficult time. Obviously food control was successful, but equally obviously it was an emergency measure whose use is limited to great public crises. Sir William Beveridge sums up his conclusions as follows:

'I can only record here, as a result of Ministry of Food experience, a personal doubt of any gain either to consumer or producer from public regulation of food-supply in peace, that would repay the cost of the vast organization involved, or justify diversion to it of any of the limited store of political energy and ability needed for more urgent problems, or outweigh the risk of bribery by subsidies.'

Quite different is the outlook presented by Mr. E. M. H. Lloyd in his general study of the extension of government action in England during the Great War entitled, *Experiments in State Control at the War Office and the Ministry of Food*. In this volume the author expresses his belief that collective organization, essential and inevitable for the successful conduct of a war, has also some

lessons for times of peace. The Great War was a 'war of organization', though, as Mr. Lloyd points out:

'The idea that industry would have to be deliberately organized for war production encountered subconscious resistance in a Government committed to the doctrines of free trade and individualism. It is not surprising that the necessity for State intervention was only gradually admitted by Ministers who had spent the greater part of their political careers in exploding the fallacies of Protectionism on the one hand and Socialism on the other'.

He traces the evolution of State control in Great Britain from the early experiments at the War Office to provide food, clothing, and munitions for the Army, to the 'control of the necessities of life for the civilian population'.

Of special interest to students of international, as contrasted with national, organization is the volume on *Allied Shipping Control: An Experiment in International Administration*, by Mr. J. A. (now Sir Arthur) Salter. As the War continued the problem of securing supplies from abroad became increasingly urgent. Submarine warfare proved the most dangerous weapon of Germany. The volume describes the work of the Allied Maritime Transport Council and Allied Maritime Transport Executive, and discusses how far the principles and methods of Allied co-operation developed during the War are applicable to the more normal conditions of peace. The Allied control of shipping was perhaps 'the most advanced experiment yet made in international co-operation'; though it was essentially based on the various national departments directing their respective mercantile marines, and it co-ordinated rather than replaced them. He first outlines the position of Great Britain, and then describes in detail the development of Allied control during and after the War.

Another volume, *The War and the Shipping Industry*, by Mr. C. Ernest Fayle, deals especially with the case of Great Britain. As the author remarks, 'the reactions of the war on shipping were more direct, more extensive, more lasting, and possibly more significant than on any other branch of economic activity'. He goes on to point out that 'shipping alone among the great British industries was constantly exposed, throughout the War, to direct

hostile attack', and that 'its activities are inextricably linked with those of commerce and industry as a whole'. The freight markets immediately reflected any considerable fluctuations in the demand for or supply of either carrying-power or products which are imported or exported. After giving an account of the position of the British shipping industry in 1914, Mr. Fayle describes the initial paralysis of British shipping on the declaration of hostilities, which was soon, however, removed by the success of the State Insurance scheme. He deals fully with the problems of requisition and State control during the War years, and also with post-war conditions and the problem of decontrol.

The subject, *War and Insurance*, is dealt with in a composite work by several hands. This was mainly important in its connexion with shipping.

One effect of the War was to convert the nations into vast entrenched camps, therefore the task of feeding the beleaguered garrisons was of supreme importance. This is dealt with by Sir T. H. Middleton in *Food Production in War*. At first sight Germany might appear to have held a great advantage in this respect. Its home market could supply the people with food six days in the week, while the home supplies of Great Britain did not provide for more than two days. But this advantage was more apparent than real, because Germany was debarred from free access to the sea and was therefore deprived of many necessary articles of diet.

'Germany, which drew some 10 per cent. only of the total energy required by its people from outside sources, was the first nation to make a careful estimate of its food resources, for although the total quantity of energy required from abroad was small, it was realized that under war conditions it would be exceedingly difficult to maintain a properly balanced dietary. These difficulties ultimately proved to be insuperable; the want of balance in the foods available, and especially the deficiency in fat, undermined the health and powers of resistance of the German people long before the War was ended'.

Here history repeated itself. At the time of the Napoleonic War, France had far greater facilities for supplying its people with food than Great Britain, but, in fact, the French people were the greater sufferers, because England had free access to the sea, and the lack of tropical produce had a similar effect in impairing the stamina

of the French to that experienced by Germany a century later. The whole story of the Great War shows how closely interlinked are the interests and fortunes of modern nations. The normal conditions would be free intercourse and reciprocal interchange of commodities. When these conditions are disturbed, the results are incalculable; hence the necessity for collecting all the economic facts relating to the War.

The effect of war upon industry is twofold: on the one hand, the demand for munitions and supplies for army and navy must be met by a transformation of the machinery of production; on the other hand, the essential needs of daily life must be supplied for the civilian as well as the military population. The first of these divisions of British War history has been fully recorded in the official history of the Ministry of Munitions, in whose many volumes will be found a detailed and comprehensive survey of what was perhaps the most far reaching war-time change in the industrial life of any nation. While the present Series describes and analyses certain typical aspects of this mobilization of industry, it deals chiefly with the other part of the problem of war-time economics, the way in which key industries were kept going under war-time conditions but with unchanged technique to supply the normal necessities of life.

The varied nature of government control is illustrated in two monographs, *The Cotton Control Board*, by Mr. Hubert D. Henderson, and *The British Coal-Mining Industry during the War*, by Sir R. Redmayne. *Labour and the Coal-Mining Industry* is the subject of a separate study by Mr. G. D. H. Cole, who also traced the war-time history of organized labour in *Trade Unionism and Munitions* and in *Workshop Organization*. The point of view and experience of the new Ministry of Labour is represented by Mr. Humbert Wolfe in *Labour Supply and Regulation*, which deals with the problem of industrial man-power for both military and civilian purposes.

An analysis of the more intimate and immediate economic effects of this vast enterprise is given in Professor Arthur L. Bowley's instructive study of *Prices and Wages in the United Kingdom*,

1914-20, that is to say, up to the climax of the post-war boom. Movements of both wholesale and retail prices are described in detail, and wages are first treated in general and later classified according to industries. No general survey of British War Finance was secured, but two volumes cover the field of Parliamentary action: Sir Josiah Stamp's *Taxation during the War*, and *British War Budgets* by Messrs. F. W. Hirst and J. E. Allen. The latter volume has naturally been drawn upon in a section of the present work.

The survey of the effects of the War upon Scotland was planned and carried out chiefly by Professor W. R. Scott of Glasgow. The volume which he wrote in collaboration with Mr. J. Cunnison on *The Industries of the Clyde Valley during the War* gives an account of the position of this highly important Scottish industrial district, which, owing to the nature of its main activities—coal-mining, iron and steel, ship-building, and marine engineering—was vitally affected by the change-over to War industry in the years 1914 to 1918, and by the even more difficult and disturbing change-over to production for the new needs of peace after the signing of the Treaty of Versailles.

The other economic activities of Scotland, chiefly fishing and the use of the land for farming or herding, are dealt with in a volume of miscellanies, *Rural Scotland during the War*, written by several authors under Professor Scott's editorship. The British fishing industry was perhaps the only one carried out on 'the front'. It was in the thick of the War, on the lines of the blockade. This was especially true of the Scottish fisheries. Scotland became the 'centre of gravity of naval operations, being the main base of the Grand Fleet and later of the American Navy'. Its coastal waters were covered with vast mine-fields, and threatened by German submarines. Trawlers were used as mine-sweepers, decoy ships, and patrol boats; while at the same time fish became more and more important as a contribution to the reduced food supply. Scottish agriculture raised new problems of land settlement and of the position of the labourer.

The influence of the War on the Dominions, on India, and on

the overseas parts of the Empire, has not been covered in the British Series except for a single volume by Mr. A. Berriedale Keith on *War Government of the British Dominions*. This volume, however, explains the situation at the outbreak of the War and the developments of what may be called the 'Imperial War Government' (the Imperial War Cabinet of December 1916 and the Imperial War Conferences of the two following years). It gives an account of the activities of the Dominion Governments during the War, and of their status as a result of it at the Peace Conference and as members of the League of Nations. It touches on the Mandatory system adopted after the War which was to have such important effects on the Dominions.

But the subsequent developments of that progressive change which replaced an Empire by a Commonwealth fell outside the scope of the analytic volumes of this series, because these developments, all of which may be traced primarily or secondarily to the World War, were not fully manifest until more than a decade after the War was over. Just how much the Statute of Westminster owes to Gallipoli and Vimy Ridge is a matter for the historian of the future to determine; but no one can deny that the rising tide of nationalism within the British Commonwealth of Nations was as definitely connected with the participation of the Dominions in the World War as the equally strong movement of abhorrence of war itself.

AUTHOR'S PREFACE

THIS book may justly be censured for many omissions and likewise for many faults. But the indulgent reader will remember my difficulties—the vastness of the subject, its length and its depth; and I may plead at least that my treatment is comprehensive. In a political narrative, needed to elucidate the political consequences of the War, I have occasionally introduced details which are not strictly relevant, but which, I think, will be helpful to those who do not remember the events, or have never read a detailed history of the period.

Though I have tried to be impartial, I cannot present even the appearance of indifference; and I frankly own that from the beginning to the end of the War and up to the present time, I have never acquiesced in the despairing fatalism of those who insist that the Great War was unavoidable, and that the statesmen or rulers who declared war were bound to do so by the dictates of honour or as a means of preserving national security and the balance of power. Towards the end of the War, I spent much time with Earl Loreburn, helping him to prepare his book, *How the War Came*.¹ In that carefully composed work, the ex-Lord-Chancellor gives a fair view of war guilt, and also presents, with a force of conviction which my own mind shares, the case against British pre-war diplomacy and against the policy, not yet abandoned, of committing our country by open pacts, or, worse still, by secret agreements, to entanglements which might again involve us in a Continental war.

I must also admit, with pride, that I was a zealous supporter of Lord Lansdowne's Letter, and of his statesman-like endeavour to hasten the advent of peace by diplomacy.

In the light of these confessions, readers who believe that the War was not only just but inevitable, and others who perhaps

¹ Methuen, 1919.

regret that peace was not dictated in Berlin, will understand why portions of this book are coloured by opinions or prepossessions which they do not share. But an independent mind which had always been opposed to war, and had always favoured the submission of international disputes to international arbitration, would have been guilty of insincerity and moral cowardice if it had not constantly criticized during the War the doctrine of unconditional surrender, and after the War those terms of the Peace Treaty that created intolerable burdens and kept open wounds which should have been allowed to heal.

In estimating the effects of the War upon the life of the nation in the widest sense, including politics, economies, finance, religion, morals, and social conditions, one has to bear in mind the danger of falling into the fallacy that so often besets us of *post hoc ergo propter hoc*. It is so very easy, when you are investigating the consequences of a great event like a war or a revolution, to fancy that almost every good or bad change that you can detect in the society and the conditions following it, as compared with the society and conditions preceding it, was caused by the war or the revolution. Thus developments like the craze for motoring or for cinemas are not due to the War at all, though their effect may be mixed up with the War's consequences, as in the case of Sunday observance, and the new habit of making Sunday a day devoted mostly to pleasure and excitement rather than a day of rest and quiet enjoyment—a case which suggests the parallel change from the rule of the Saints under the Long Parliament and Cromwell to the rule of the Sinners after the Restoration of 1660.

In another sphere—the altered status and outlook of women—the War is largely but by no means wholly responsible. The emancipation of women, apart from the vote, was practically complete before the War. What the War did was to substitute women's labour for the labour of men in several occupations, and secondly, to deprive half a million English women of their opportunities of marriage.

This suggests another important qualification, which must always be borne in mind in our investigation. We have to distinguish between transitory and permanent influences. Nothing, indeed, in the life of the world is permanent in the strict sense; though, looking back over recorded history, we may agree that great discoveries and inventions, such as the ship, the plough, the loom, gunpowder and other chemical discoveries, steam power, electricity, the art of writing, printing, &c., &c., are causes which have operated over many centuries and are still active and potent forces in civilization. Of useful inventions perhaps 'Daylight Saving' is the best that we can connect with the war period.

But undoubtedly great changes usually result from great wars. Battles have altered the course of events. So, too, have religious movements and revolutions of opinion, such as the Reformation in the sixteenth century, the American and French Revolutions in the closing years of the Eighteenth Century, and, in our day, the Russian Revolution which has established (at least temporarily) a new form of society in Europe, and is itself in part the creature of war misery and discontent.

At this time, more than fourteen years after the end of the War, the economic consequences of the War and the Peace, including the losses of men, the burden of debts and taxes and the dislocation of the world's monetary system, are still uppermost, still a predominant factor in the international chaos, still a main element in the domestic difficulties, not only of the belligerent nations, but of countries which remained neutral. But in the course of years, these economic consequences will gradually wear away, as they did after the Napoleonic Wars, though it may be remembered that most of the dead-weight debt of Britain, when the Great War broke out in 1914, was a century-old legacy of the wars with France.

There is at least one ground for hope, hope of a world-wide prosperity so great that the burden of war debts will become light. That hope depends on the desire for peace, goodwill, and universal free trade becoming effective through the instrumentality of the

League of Nations and other international agencies. A day must surely come when statesmen will have learnt the lessons of the War, when common sense and the natural friendliness of mankind will substitute concord for contention and free intercourse for the barriers that are now being raised against commerce.

In writing this book, I have received many suggestions and much valuable assistance from friends, young and old, but especially from contemporaries of my own, who, after taking part in the controversy about the Boer War, were familiar with economic and social conditions in the decade from 1904 to 1914, went through the four terrible years of the Great War, and finally watched events and criticized policies during the last fourteen years from the end of 1918 down to the year 1933, in which last year most of this book was written. Apart from those whose names appear in the text, I owe a special acknowledgement for valuable assistance to Mr. J. E. Allen, Mr. C. J. L. Brock, Miss D. J. Perryn, and my sister Miss Margaret Hirst.

CONTENTS

EDITOR'S PREFACE	v
AUTHOR'S PREFACE	xiv

PART I

POLITICAL, SOCIAL, AND MORAL CONSEQUENCES OF THE WAR

BOOK I

EFFECT OF THE WAR ON POLITICS

I. POLITICS DURING THE WAR	3
II. POLITICAL CONDITIONS AFTER THE WAR, 1919-1933	22
III. LABOUR AND SOCIALISM	37
IV. POLITICAL CONSEQUENCES OF THE WAR IN IRELAND	47
V. THE BRITISH EMPIRE AND INDIA	53

BOOK II

EFFECTS OF THE WAR ON SOCIETY AND OPINION IN GREAT BRITAIN

I. SOCIAL AND MORAL CONSEQUENCES	63
II. CONSCRIPTION AND PACIFISM	86
III. D.O.R.A. AND RESTRICTIONS ON LIBERTY	103

PART II

FINANCIAL AND ECONOMIC CONSEQUENCES OF THE WAR

BOOK I

THE WAR AND POST-WAR BUDGETS

INTRODUCTION	143
I. THE WAR BUDGETS, 1914-1918	144
II. THE WAR LIQUIDATION BUDGETS, 1919-1922	168

III. THE BUDGETS OF 1923 AND 1924	191
IV. THE CHURCHILL BUDGETS, 1925-1929	203
V. THE CRISIS BUDGETS, 1930-1933	216

BOOK II

TAXATION, EXPENDITURE, AND DEBT

I. THE GROWTH OF TAXATION AND EXPENDITURE	234
II. THE WAR DEBT OF GREAT BRITAIN	246

BOOK III

TRADE, EMPLOYMENT, AND WAR CASUALTIES

I. EFFECTS OF THE WAR ON THE OVERSEAS TRADE OF GREAT BRITAIN	258
II. EMPLOYMENT AND UNEMPLOYMENT, 1914-1933	281
III. LOSSES IN KILLED AND WOUNDED	295
INDEX	307

PART I

POLITICAL, SOCIAL, AND
MORAL CONSEQUENCES OF THE WAR

BOOK I
EFFECT OF THE WAR ON POLITICS

CHAPTER I
POLITICS DURING THE WAR

PARTLY by introducing new issues and new motive forces into politics, partly by disturbing the normal course of events and so hastening or retarding the operation of forces already in existence, the Great War made a momentous change in the fortunes of British political parties. When it broke out there were two major parties: the Liberal Party, which was in office, with Mr. Asquith as Prime Minister, and the Conservative or Unionist Party which was in opposition under the leadership of Mr. Bonar Law in the Commons, and the Marquis of Lansdowne in the House of Lords. The main differences that divided the two parties were Tariff Reform and Home Rule for Ireland. On both these issues the Liberal Party, standing for Free Trade and Home Rule, could count on the support of the two minor parties—the Irish Nationalist Home Rulers and the British Labour Party. The former were led by Mr. John Redmond and Mr. John Dillon, the latter (whose growing strength depended on the trade unions) by Mr. Ramsay MacDonald and Mr. Philip Snowden.

Liberalism lost ground during the War, while Toryism and Socialism gained strength. The Liberal Party was sensibly weakened, though it subsequently made a partial recovery. The Tory Party gained its two objects—the postponement of Home Rule, and the introduction of a Protective and Preferential Tariff. It also achieved conscription. As time went on the Labour Party, thanks to its two pacifist leaders, MacDonald and Snowden, gained by the reaction against militarism, and grew after the War from being a minor ally of the Liberals into a powerful independent party, which at one time (in 1929) actually had more representatives in the House of Commons than either of the older parties. Thus, the three-party system came into being and a new reform, Proportional Representation, became necessary to secure that Parliament should be a fair reflection of the electorate.

Before the War, the Liberal Party was in a strong position. It

had regained power under Campbell-Bannerman at the election of 1906 with an overwhelming majority—for only 158 Conservatives were returned in a House of 670 members. In 1910 there were two general elections, owing to the rejection of the Budget by the House of Lords. At the first of these, in January, the ministerial majority was diminished; but at the second, in December, it was maintained, and Mr. Asquith was thus enabled to pass the Parliament Act which restrained the power and restricted the veto of the House of Lords. Together with their Labour and Irish Nationalist allies, the Liberals had a majority over the Conservatives and Liberal Unionists of 126. This Parliament, elected in December 1910, being still in existence at the outbreak of the War, was continued until the end of it. During its life (which was prolonged in order to avoid an election during the War) three different governments held office: first, the Liberal Government under Mr. Asquith (afterwards the Earl of Oxford); secondly, the first Coalition Government, also under Mr. Asquith, but including representatives of the Liberal, Labour, and Conservative Parties; and thirdly, the second Coalition Government, under Mr. Lloyd George. The Irish Nationalists, who had 84 members in the House when war was declared, were offered, but declined, places in the first Coalition Government; but Sir Edward Carson (afterwards Lord Carson), leader of the Ulster Orangemen, became Attorney-General, and subsequently attained even higher office in the second Coalition—a fact which helped to embitter and estrange the Irish Catholic Nationalists. The case of Ireland will be treated in a separate chapter.

How the War altered the parliamentary strength of the three parties is shown by a table on the following page, which gives the number of members of each of the three British parties immediately before the dissolution in 1918, and after the general elections held subsequently:

Since the War, except in 1923 when the General Election produced a parliament fairly representing the voting strength of the three parties, the independent Liberal Party has always been much under-represented. On the other hand, the Conservative Party, except in that year and in 1929, has held far more seats than it was entitled to by its voting strength. The Labour Party was lucky in 1929 and very unlucky in 1918 and 1931. These caricatures of representative institutions have all resulted from the fact

that the system of single constituencies cannot be adapted to the three-party system.

Date	Conservative	Liberal		Labour	
1918 (before dissolution)	282	260		38	
1918 (after election)	382	33	131	63	
		Independent National			
1922 (end of Coalition)	347	64	53	142	
1923	258	158		191	
1924	415	42		152	
1929	260	59		288	
1931	471	72		Opposition National	
				52	13

Outbreak of the War and Politics

Before the Government declared war, Liberal and Labour opinion favoured neutrality, though in both cases a majority swung round when the Germans invaded Belgium.

To understand why the Liberal Party fared so badly, we have to remember that a long line of great Liberal statesmen and orators from Cobden, Gladstone, and Bright to Sir William Harcourt, Campbell-Bannerman, and John Morley had been protagonists of peace and of non-intervention in continental wars. In 1870, when the neutrality of Belgium and Luxemburg was endangered, Mr. Gladstone and his Foreign Secretary, Lord Granville, had saved them from invasion by adopting an attitude of neutrality provided that Germany and France refrained from violating these neutral states. If either did so, Great Britain was to join the other. Had this precedent been followed by Sir Edward Grey at the end of July, 1914, it is unlikely that Germany would have invaded Belgium. But Great Britain would in that case have had to remain neutral, and Sir Edward Grey felt that he was in honour bound to support France and Russia if Germany went to war. This explains his answer to the German Ambassador, and a passage in Morley's Memorandum.¹

When most of the Conservative newspapers, including *The Times*, then owned by Lord Northcliffe, the *Daily Telegraph*, and

¹ Memorandum on Resignation, August 1914, by John, Viscount Morley, edited by F. W. Hirst with an introduction, and published by Macmillans, London, 1928.

the *Daily Mail*, began to prepare their readers for war, from July 24th onwards, and diverted attention from the Irish crisis, the three leading organs of Liberal opinion—the *Manchester Guardian*, the *Daily News*, and the *Nation*—under the guidance of three powerful and talented editors, C. P. Scott, A. G. Gardiner, and H. W. Massingham, argued strongly and fervently in favour of neutrality and against the triple plea that we were bound to fight (1) for the balance of power in Europe, (2) to protect the neutrality of Belgium, and (3) to stand by our friends. That the views of these three newspapers and also of the *Economist* represented those of most independent Liberals—the Cabinet being at first about equally divided—is probable from the names of those who signed the manifestoes issued by hastily formed Neutrality Committees, and from the speeches and resolutions passed at the end of July and the beginning of August at numerous Liberal meetings, as well as by the Free Churches all over the country. Neutrality Manifestoes were also signed by prominent professors and scholars at the universities of Cambridge and Manchester. A few days before the War even *Punch* poured ridicule in prose and verse upon the very idea of fighting alongside Serbia and Russia, and *Truth* prophesied that if Mr. Asquith's Cabinet declared war, there were among its opponents in the House of Commons 'men who will form a government one of these days when the front benches and their Coalition have been swept into the oblivion that so often engulfs statesmen, who, however innocently, go to war'. This forecast was literally fulfilled; for Mr. Ramsay MacDonald, who signed one of the Neutrality Manifestoes, and expressed his opposition to Sir Edward Grey by word and vote on August 3rd, has actually been Prime Minister since then of two Labour Governments and one Coalition Government. Strong and justifiable criticism was also directed by the *Manchester Guardian* and others against Sir Edward Grey's extraordinary remark: 'If we are engaged in war, we shall suffer but little more than we shall suffer even if we stand aside.'

In the end only two Cabinet Ministers, Lord Morley and Mr. John Burns, resigned. Once war was declared the Government had no difficulty in rallying the whole force of the nation behind them. Patriotism and the instinct of preservation and all the gallantry of the country came into play; but even after the die had been cast, the *Daily News* wrote (August 5th):

‘We place on record our conviction that it was possible and that it would have been just and prudent and statesmanlike for England to have remained neutral. We shall record that a mistaken course of foreign policy pursued over ten years, has led us to the terrible conflict in which we are now engaged. We believe that the conviction that that policy was a mistake will steadily conquer the minds of the English people, and that they will one day come to the resolution that it is an error which must not be repeated.’

These last words of protest having been said and written by the Liberal press, controversy came to an end, and it was a long time before the voices of a small, but gradually growing, number of Liberals and Socialists began to be heard in favour of a negotiated peace by diplomacy against the adoption of the ‘knock-out blow’ policy proclaimed by Mr. Lloyd George and the Northcliffe press.

It was then that the two ablest and most eloquent of the Socialist leaders—Mr. Ramsay MacDonald and Mr. Philip Snowden—came to the front, and gradually swung the Labour Party round on to vantage ground from which it could easily attract large numbers of Liberals. Many of them had agreed with Lord Loreburn as to the origins of the War, many more had supported Lord Lansdowne’s Letter (which favoured its termination by diplomacy) and were utterly disgusted by the provisions of the Treaty of Versailles. Thus it came to pass that Mr. Ramsay MacDonald’s first Labour Government included several Liberals, and many of his parliamentary supporters were men who had left the Liberal Party and joined the Labour Party through dissatisfaction with the whole policy of the War and a desire to change the foreign policy of the country.

The Independent Labour Party and the League of Democratic Control were two of the political instruments which brought about these conversions and made the Labour Party for a time in some respects an organ of Liberal opinion, while the Liberal Party was divided by the dispute between Mr. Asquith and Mr. Lloyd George and distracted by dissensions arising therefrom.¹

¹ It happens that pre-war feeling, and especially the attitude of Liberal opinion on the eve of the War, has been carefully investigated and set forth with numerous quotations in a little book by Miss Irene Cooper Willis, entitled *How We Went into the War*. It was published by the National Labour Press in November 1918. See especially pages 1–85. The later part of this book and another volume by the same writer, *How we came out of the War* (1921), provide a useful study of war psychology in Great Britain, though the author made too little allowance for the difficulties of Liberal journalists, and was too severe on the inconsistencies of

When the Government declared war on Germany on August 4th, 1914, they could point to the German invasion of Belgium, whose neutrality had been guaranteed since 1831 by Great Britain, France, Prussia, Austria, and Russia; and there is no doubt that a vast majority of Englishmen were speedily persuaded that the War was justified by the action of Germany. Later on numbers of those who had stood for neutrality were converted to Mr. Asquith's war aim of crushing Prussian militarism, when they read stories of German atrocities perpetrated in Belgium. Many of these were fabricated, and many more exaggerated. Yet the Bryce Committee (Lord Bryce, Sir Frederick Pollock, Sir Edward Clarke, Sir Alfred Hopkinson, Mr. H. A. L. Fisher, and Mr. Harold Cox), after such inquiries as were possible about the alleged German outrages, confirmed the belief that organized terrorism had been employed during the early part of the War. Later still, the use of poison gas, submarine warfare, the torpedoing without warning of the *Lusitania* which resulted in over 1,100 people being drowned, the sinking of hospital ships, the air raids upon the civilian populations in numerous towns, and other 'frightfulnesses', were used to justify relentless prosecution of a 'war to end war', and for the crushing of Prussian militarism.

In such an atmosphere calm reasoning and political arguments had little or no place. Moreover, the two great political parties by common consent suspended all party propaganda 'for the duration of the war'. Labour and Liberal groups pleaded for peace by diplomacy, but they were denounced as unpatriotic pacifists. When conscription was introduced, a controversy arose about conscientious objectors, and there was enough Christianity and good feeling left to grant them exemption from fighting. But otherwise even moral and religious questions caused little disturbance. Few political meetings were held; the party periodicals were devoted to supporting or describing the War; political organizers were

embarrassed politicians. A fairer view of British psychology during the War and of the efforts made by liberal-minded journalists and public men to moderate opinion is presented in two volumes by Miss Caroline E. Playne entitled *Society at War*, 1914-16, and *Britain Holds On*, 1917, 1918. In judging the actions, speeches, and writings of public men during a desperate struggle, we have to remember that patriotism in war time makes an overwhelming claim. In such a turmoil few discern between good patriotism and bad. Truth, Justice, and Liberty are not likely to flourish when Death is decimating a nation's manhood and the Government becomes a Committee of Safety.

engaged upon war work of all kinds. Even ministers of religion took part in recruiting. Apart from Labour meetings and peace conferences and an occasional debate in the House of Commons or House of Lords, there was an almost complete cessation during the course of the War of all efforts for political education. The Censorship discouraged criticism. News from the front, or militarist and nationalist propaganda occupied the attention of the masses to the exclusion of almost everything else.

This paralysis in the public life of Great Britain (at first expected to last but a short time, after which pre-war activities would be resumed) was prolonged for over four years. No wonder then that it produced by degrees a deadening effect on the popular mind, or that, when at last the time came to resume party politics and people began to be roused from the war stupor, there could be no question of taking up the thread where it was broken in 1914. So much history had been made during the intervening four years that pre-war questions seemed to belong to an older generation; the merits and demerits of the pre-war records of the parties were forgotten; and pre-war political arguments, even though they might be based upon universal principles and perpetual truths, were brushed aside with impatience. The wisdom of the ancients counted for little.

In February 1918 Parliament—still containing the progressive majority elected in 1910—passed a far-reaching measure of electoral reform. The Representation of the People Act, 1918, was numerically far more important than any of its predecessors. The great Reform Act of 1832, which enthroned the middle classes, added fewer than half a million voters to the electorate; the Act of 1867 added about a million; and that of 1884 about two millions. At the beginning of 1918, the total electorate then about 8,000,000 was raised to no less than 21,000,000, including for the first time women electors numbering approximately 6,000,000. The War itself had helped to bring about this vast extension of the electorate. It is unlikely that in the normal times of peace so tremendous a step would have been taken at one stroke; but all restraint and caution had vanished, and the three parties were bent on competing for the new vote. Conscription was not much used as an argument against women. Indeed their war-work did more to gain them the vote than a generation of argument, ending in the violent campaign of the militant suffragettes in the years preceding the War.

As a result of the 1918 Act the post-war electorate became three times as large as that which took part in the last pre-war election, and included a vast preponderance of voters who had little political knowledge or experience. The indifferent vote and the three-party system applied to single constituencies account for much of the deterioration in British post-war politics.

All these factors, the concentration for four years upon the War, the prolonged war propaganda (on which huge sums of public money were spent), the Censorship, the almost complete absence of political activity and educational effort, and the enormous additions to the electorate, shook the party system to its foundations and inaugurated a new era for British democracy and representative government. Politics became less political. Financial, economic, and social questions forced themselves to the front.

The War also introduced a number of other factors which deserve some further attention. Scarcely any political leader or cause escaped its effects. There were in England, as in other countries, a few strong personalities whose pacifism survived the general war-fever; and after the War some of them rose to popularity and fame. At its outbreak, as we have seen, most even of the politicians and publicists who had stood for peace and arbitration became enthusiastic supporters of a war which, they were persuaded, was 'just and inevitable'. There were, however, some exceptions. Lord Morley, Mr. John Burns, and Mr. (now Sir) Charles Trevelyan resigned from their places in the Government; Mr. Ramsay MacDonald declared in the House of Commons that 'this country ought to have remained neutral',¹ and a few days later he resigned from the chairmanship of the Labour Party, which took the opposite view. His opinion, however, was shared by Mr. Philip (now Lord) Snowden and other members of the Independent Labour Party. The Quakers, and others who objected to the employment of physical force under any circumstances, abstained from active service, and were exempted from conscription when it was introduced (for the first time in English history) in 1916. The establishment of compulsory military service was also opposed by a group of Liberal and Labour members. It aggravated the frightfulness of the War and the horror which it inspired, but it weakened opposition by making the military authorities more powerful than

¹ About 40 Liberal and Labour M.P.s voted against the War.

ever. Conscientious objectors remained passive resisters, and in most cases assisted in some form of national service, such as ambulance work or agricultural labour.

As the work of destruction proceeded, the casualty lists lengthened. More and more thousands of men suffering from poison gas or shell shock, or fearfully maimed, returned from the front. An ever deepening sense of tragedy, the agony of a lost son or lover or husband, or the sickening fear of bad tidings, spread through all the towns and villages until horror of war, mingled with the apathy of fatalism and a grim determination in some quarters to 'stick it out', spread through the nation. From first to last a vast majority in Parliament, and most of the press, supported the Government's rather indefinite war aims; and 'the home front' was maintained by hopes of victory, with promises of a lasting peace. It was to be a 'war to end war'.

The First Coalition Government

For the first ten months of the War the Liberal Ministry which had governed the country since December, 1905, remained in office. In May 1915, as the War was going badly, Mr. Asquith (embarrassed by criticism in the opposition press, and by a dispute between Mr. Churchill and Lord Fisher at the Admiralty, leading to the resignation of both), decided, after consultation with the Conservative leaders, Mr. Bonar Law, Mr. Balfour, and Lord Lansdowne, to form a Coalition Government. It was a bitter pill for many of his colleagues and supporters. A number of Liberal Ministers were necessarily displaced to make room for representatives of the other parties. Among them was Lord Chancellor Haldane, a Liberal Imperialist, who, as Secretary for War, had been responsible for the military and naval 'Conversations'. He was absurdly charged with German sympathies, merely because he was addicted to Hegel's philosophy, and shortly before the War had described Germany as his 'spiritual home'. Mr. Asquith remained Prime Minister, and Sir Edward Grey (afterwards Viscount Grey of Fallodon), retained the office of Foreign Secretary. It was declared that there would be no change in the policy and war aims of the Government.

The first Coalition Cabinet consisted of 22 members, including 12 Liberals, 8 Conservatives, Lord Kitchener (who had been appointed Secretary of State for War in August, 1914) and one Labour

member, Mr. Arthur Henderson. Mr. John Redmond, the Irish leader, was also offered a place in the Cabinet, but declined, though the Irish Nationalist Party decided to give the Coalition Government the support it had accorded to its predecessor. Mr. Henderson joined the Cabinet with the approval of the Labour Party, and other Labour members accepted minor offices. Mr. Ramsay MacDonald and Mr. Philip Snowden remained critics of the war aims, along with a number of Liberals and Socialists who desired peace negotiations. Mr. Lloyd George gave up his post as Chancellor of the Exchequer to Mr. McKenna in order to preside over a new Department called the Ministry of Munitions.

The formation of a Coalition Government caused consternation among Party Liberals. It seemed equivalent to an admission that Mr. Asquith had failed. But most people thought it a natural and desirable means of securing united energy and a concentration of political ability for the purpose of winning the War. The old party system, it was said, could easily be retrieved when the War was over, and the leaders who joined in the Coalition assured their supporters that it would have no effect upon their principles and programmes. In the event, however, it proved to be a first step towards Protection and Conscription, undermining Liberal ideals and creating divisions in the Liberal Party. The prolongation of the War ensured the ascendancy of the Tory Party, which had long favoured national service, whereas Liberalism was fundamentally incompatible with militarism, and this incompatibility was about to be fully revealed. A small dose of Protection and a full measure of Conscription were the first stages in the process of disintegration.

All hopes of a speedy end to the War were disappearing. For the first year recruiting had been on a purely voluntary basis, and a vast army was enrolled; but the demand for compulsory service was gaining ground among the Conservatives; and before long Lord Northcliffe's newspapers, temporarily quietened by the formation of the first Coalition, were again attacking the Government for its indecision, and demanding a great increase in the supply of men and munitions, as the theatres of the War multiplied and its scale extended. In August 1915 an intermediate step was taken. Under the National Registration Act the whole of the population between the ages of 15 and 65 was required to be registered and classified into groups according to age, sex, marriage, occupation,

and health. The Earl of Derby was appointed Director-General of Recruiting, and during the autumn of 1915 a 'Derby Scheme' was initiated for recruiting at least 30,000 men a week from among those shown by the National Register not to be engaged in essential occupations. In order to induce married men to enlist they were promised by the Government that they would not be required to serve until an adequate number of single men had come forward, and that if the single men failed to enroll, compulsion would be applied to them. Khaki armlets were served out to those who attested under the Derby Scheme, and in this way a sort of compulsory volunteering came into existence. In January 1916 the first Military Service Act—to conscribe unmarried men between the ages of 18 and 41—was introduced. It did not apply to Ireland.

This Bill caused a cleavage in both the Liberal and Labour Parties. Sir John Simon resigned his office as Home Secretary in order to lead the opposition to the Bill. In the division on the third reading, 144 Liberals voted for the Bill, 31 against it, and 84 did not vote. Six Labour members also voted against the Bill, and the majority of the party abstained. Among the opponents were Sir John Simon, Mr. John Burns, Mr. Leif Jones, Mr. Gordon Harvey, Mr. R. D. Holt, Mr. P. A. Molteno, the late Mr. Pringle, Mr. C. P. Trevelyan, Mr. Arthur Ponsonby, Mr. Ramsay MacDonald, Mr. Philip Snowden, and Mr. J. H. Thomas. This Act was soon followed by a second Military Service Act, applying conscription to all men not specially exempted, whether they were married or not, which received the Royal Assent on May 25th, 1916. These Bills stifled opposition to the War. On that date, it was announced that 5,041,000 men had enlisted under the voluntary system.

In spite of Mr. Asquith's statement in the House of Commons (May 2nd, 1916) that in his opinion for the purposes of the War 'compulsion is a pure question of practical expediency', conscription was repugnant to liberal-minded people in all parties; and the country as a whole, though it was brought to accept conscription as a desperate necessity, would scarcely have done so if the change had been introduced any earlier. Mr. Bonar Law, in an address to the National Unionist Association on August 9th, 1916, claimed that conscription was one of the things that the Coalition Government had been able to carry which would have been unobtainable under a party Government. 'It is my belief', he said, 'that a

Liberal Government alone could not have carried compulsion when it became necessary. 'The party would not have let them.' It is certainly true that conscription was regarded with deep misgiving by most Liberals, and that its introduction by their leader disheartened and weakened the party. It was also a further triumph and encouragement to those who had persistently aimed at the defeat of Home Rule and Free Trade. Before the end of the year, their efforts were to culminate in the retirement of the Liberal leader himself.¹

The Second Coalition

In the early part of the War Mr. Asquith's position seemed unassailable. The attacks of the Northcliffe press on his Government were directed at first mainly against Lord Haldane and Lord Kitchener. The retirement of Lord Haldane upon the formation of the first Coalition has already been mentioned. Later, an attempt was made to undermine the position of Lord Kitchener; but this campaign aroused so much popular indignation (copies of the *Daily Mail* were burnt in the streets in London) that it was abandoned. Accident came to the aid of Kitchener's enemies; for in June 1916 he was drowned off the coast of the Orkney Islands when H.M.S. *Hampshire*, which was carrying him on a war mission to Russia, was sunk. His death had far-reaching political results. So long as Kitchener remained in the Cabinet Mr. Asquith was secure; for Kitchener was still popular and the Prime Minister could count on his support. It was also unfortunate for Mr. Asquith, as it turned out, that Mr. Lloyd George succeeded Kitchener as Secretary of State for War, while at the same time—as the Constitution required that at least one Secretary of State must be in the House of Lords—Sir Edward Grey accepted a peerage, and so left the scene of active politics in the House of Commons. All this weakened the Premier's authority, and victory seemed as far away as ever. But his fall was preceded by the loss of two other colleagues, who had been prominent in the councils of the Liberal Party. At the end of 1915 Mr. Winston Churchill (who was discredited by the unlucky

¹ For the introduction of Conscription see *The Parliamentary History of Conscription*, being a summary of the Parliamentary debates, &c., with the division lists and the texts of the Military Service Acts. This book was compiled (at my suggestion) by Richard C. Lambert, M.P., and published by George Allen & Unwin, London, 1917. The subject is treated at more length in a later chapter.

expeditions to Antwerp and Gallipoli, which he had initiated as First Lord of the Admiralty, and had been relegated to a minor post, the Duchy of Lancaster) retired from what he described as 'well-paid inactivity' to join his regiment in France. A few months later, after the Dublin rebellion of April 1916, Mr. Augustine Birrell resigned his post as Chief Secretary for Ireland, and was succeeded by Mr. H. E. Duke, a Conservative.

In the late autumn of 1916 the Marquis of Lansdowne, whose previous experience as Foreign Secretary in the Conservative Administration from 1900 to 1906 gave weight to his opinions, circulated a memorandum in the Cabinet urging that all diplomatic avenues to an honourable peace should be explored with a view to ending the bloodshed and the impending ruin of all the belligerent nations. The memorandum was practically identical with the famous letter which he published a year later in the *Daily Telegraph*. I have been told by a member of the Cabinet that it made a strong impression, and that if there had been no change of Government, a more or less stalemate peace would probably have been arranged within a few weeks. But Lord Northcliffe got wind of it, and Sir Max Aitken,¹ owner of the *Daily Express* and a bosom friend of Mr. Bonar Law, was brought in to assist in compassing the destruction of Mr. Asquith's Government, or at least to bring about such a change in it as would extinguish all efforts for a compromised peace. A press campaign was started, suggesting that Mr. Asquith's feeble and hesitating methods should be replaced by a new and more vigorous conduct of the War under the supreme direction of Mr. Lloyd George, though Mr. Asquith was to be left in nominal charge of affairs as Prime Minister. After several days of intrigue and private negotiations, Mr. Lloyd George and Mr. Bonar Law wrote letters to Mr. Asquith which brought about his resignation. Nearly all his Liberal colleagues except Mr. Lloyd George retired, and so also did the Marquis of Lansdowne. The second Coalition Government was then formed with Mr. Lloyd George as Prime Minister and Mr. Bonar Law as Chancellor of the Exchequer and Leader of the House of Commons. Several new Ministries were created, such as the Ministry of Labour, the Ministry of Pensions, and the new Offices of Food Controller and Shipping Controller.

¹ A Canadian millionaire, who was afterwards rewarded for his services by a peerage, and is now better known as Lord Beaverbrook.

Mr. Lloyd George persuaded a number of Liberals to join the Administration. At the same time the number of Conservative Ministers was increased by nine and the number of Labour Ministers by three.¹

Thus ended Mr. Asquith's career as Prime Minister after nearly nine years of office. It might have been supposed that he would now have taken a definite line in favour of peace negotiations; but neither he nor any of his late colleagues, with the exception of Lord Lansdowne, took any action, deeming it their patriotic duty to support the Government in all its measures. The only important exception occurred in the so-called Maurice Debate of May 9th, 1918, when General Sir Frederick Maurice resigned the directorship of military operations, and published a letter denying statements made by Mr. Lloyd George and Mr. Bonar Law in the House of Commons, concerning the strength of the British Army in France when the German Army broke through in March. Mr. Asquith supported the motion for investigating the matter, but it was resisted by Mr. Lloyd George, and no inquiry was held. Mr. Lloyd George described the motion as 'a parliamentary conspiracy to overthrow the Government', and 106 Liberals who had voted for it were marked down for destruction at the Coupon Election, which came at the end of the War.

It will always be disputed whether the conduct and direction of the War was better and more efficient under Mr. Lloyd George than under Mr. Asquith. It was certainly far more costly both in life and treasure to Great Britain; and at first the collapse of Russia was hardly offset by the accession of the United States, whose entry into the War on the side of the Allies took place in April 1917. The collapse of Russia enabled Germany to concentrate much larger forces on the Western front, whereas America, though Congress

¹ Among the Liberal members of Mr. Lloyd George's Cabinet, the most conspicuous were Mr. Churchill, who became Minister of Munitions, Mr. Montagu, who became Secretary of State for India, and Mr. H. A. L. Fisher, who was appointed Minister of Education. Among the Labour Ministers, Mr. Arthur Henderson, Mr. Clynes, and Mr. Barnes were the most prominent. Among the Liberals who resigned with Mr. Asquith were Lord Grey, Lord Crewe, Mr. McKenna, Mr. Runciman, and Mr. Herbert Samuel. Mr. Asquith made no attempt to dissuade Liberals from taking office under Mr. Lloyd George, and three days after his resignation, at a meeting of his party, he appealed to its members to support the new Government. Scores of biographies, autobiographies, contemporary memoirs, and diaries teem with conflicting accounts of Mr. Asquith's fall from power.

immediately adopted conscription, was for some time only able to help with loans of munitions and food supplies, along with her fleet. No doubt the British and other Allied Governments were enabled, by the intervention of America, to insist upon a programme of 'no peace without victory', including reparations and territorial acquisitions for France and Italy. It imparted a new psychology of confidence and expectation; for if only the Allied armies could endure, victory was certain, seeing that America had adopted conscription and was preparing a great army to throw into the field. Nevertheless, when the American and Allied Governments had declared that they did not seek revenge or the humiliation of Germany and the other enemy Powers, Lord Lansdowne, formerly the leader of the Conservative Party in the House of Lords, published an appeal for peace. His letter, which appeared in the London *Daily Telegraph* on November 29th, 1917 (*The Times* having refused to publish it), declared: 'In my opinion, if the War is to be brought to a close in time to avert a world-wide catastrophe, it will be brought to a close because on both sides the peoples of the countries involved realize that it has already lasted too long.' Lord Lansdowne proceeded to suggest the basis on which peace might be made, including a declaration that there would be no interference with the German form of government, that the Powers would examine the problems connected with the 'freedom of the seas', and that there should be an international pact 'for the settlement of international disputes by peaceful means'—a reference to the proposal for a League of Nations, to which by this time all the leading British statesmen were committed.

Lord Lansdowne's letter, though warmly approved by individual peace-lovers, was at once repudiated by the British Government. An official statement was published on December 1st announcing that its views were not the views of the Government, and quoting M. Clemenceau's declaration that 'the War aims for which we are fighting are victory'. A Lansdowne Committee was formed (of which I was Honorary Secretary) and was joined by independent men of all parties and all ranks of society, including Earl Loreburn, Mr. Ramsay MacDonald, and Mr. Gilbert Murray. A number of meetings were held; an address was presented to Lord Lansdowne at Lansdowne House; and he made several other interesting and

impressive statements. The history of this movement and the names connected with it may be found in the pages of *Common Sense*—a weekly periodical which had a large circulation among supporters of a negotiated peace.

A brief but balanced appreciation of Lord Lansdowne's two peace efforts will be found in his *Life* by Lord Newton (chapter xx). Lord Lansdowne told me that he was overwhelmed with letters from the front from officers and men, thanking him for his letter, and begging him to press on to find an honourable way of ending the slaughter. He was also exposed to the vituperation of the Northcliffe and Hulton press, but he did not flinch or draw back. As he wrote to his daughter, the Duchess of Devonshire (December 10th, 1917): 'I have been snowed under with letters from all manner of folk—a few hostile, but mostly in complete sympathy with me. The prevailing note is, "you have had the courage to say what we have been thinking for ever so long".' At the end of January he repeated his belief in the possibility of 'a clean peace in good time', and his hope that the British Government in pursuit of it would 'leave no effort unmade, however difficult, and no avenue unexplored, no matter how unpromising it may seem to be'.

Lord Lansdowne's first peace effort in the autumn of 1916 had been frustrated, as we have seen, by the overthrow of Mr. Asquith's Coalition Government. If it had succeeded, far more than half—about two-thirds—of the losses in men and money suffered by Great Britain and by Europe in the War would have been averted. Had his second effort succeeded—to quote Lord Newton—negotiated peace 'would certainly have effected a more permanent European settlement than exists at the present day [November 1929]. Millions of lives would have been saved, and the load of human misery substantially reduced. We ourselves, at a moderate computation, should have been spared hundreds of thousands of casualties, and more than fifteen hundred millions of expenditure.' Again, in the words of Viscount Grey, who was secretly in sympathy with Lord Lansdowne, though he said nothing in public at the time, 'prosperity and security might be to-day more fair in prospect for us all than the victory of 1918 and the treaties of 1919 have made them; and there would have been a peace with no noxious secret ideas of *revanche*'.¹

¹ See *Twenty-Five Years*, by Lord Grey of Fallodon.

No impartial historian, who realizes that the provisions of the Treaty of Versailles were made possible by the success of Mr. Lloyd George's 'knock-out blow' policy, and that a multiplicity of tariff barriers and other restrictions upon trade thereby produced helped to complete the economic ruin of central and south-eastern Europe, will deny the wisdom of Lord Lansdowne's proposals, which recall the moderation of the Duke of Wellington and of the British Government after the final defeat of Napoleon in 1815. The economic consequences of the Great War cannot be dissociated from the economic consequences of the peace. A restless and revolutionary Europe, racked by Bolshevism and Fascism, and the persecution of minorities by an intolerant nationalism have been the heavy price of victory. Here it is enough to record that Lord Lansdowne's efforts were frustrated by Mr. Lloyd George's Government, which, as we have seen, expressed its agreement with M. Clemenceau's statement that the Allied war aims were victory.

Nevertheless, the Lansdowne letter and the movement which followed did undoubtedly incline public opinion in England towards a negotiated peace, and, what is even more important, it encouraged President Wilson and his diplomatic agent, Colonel House. 'I well remember', so Colonel House wrote to me on March 5th, 1929, 'how much encouragement Lord Lansdowne's announcement gave me. I had been trying to get an expression from the Allies as a whole upon their war aims, but without success. Lord Lansdowne's courageous statement struck a note that had been strangely lacking up to that time. His party affiliations and his prestige gave weight to what he said. It was certainly one of the contributing causes to the formulation of the Fourteen Points.' At the same time the impartial historian, in surveying this episode, will not forget that the military Government of Germany, and especially Ludendorff, must bear the heaviest responsibility for frustrating peace efforts and overtures—more especially by their refusal to make an unequivocal statement regarding Belgium.

Our account of War politics and of the War Parliament may now be brought to a close. After desperate fighting in the spring and summer of 1918, when the German armies, having broken through, were finally checked and driven back, Germany was at last forced to capitulate. The Armistice was signed on November 11th, and a period of general rejoicing and thankfulness followed in

Great Britain. The people were intoxicated with joy and relief that the shedding of blood and the waste of treasure were over. The propitious moment was promptly seized by Mr. Lloyd George to harvest the fruits of victory before the electorate had time for second thoughts, and before new scenes of famine and revolution were presented before them.

On November 12th, the day after the Armistice, Mr. Lloyd George and Mr. Bonar Law met their respective followers, and an election with candidates pledged to support the Coalition was decided upon. Indeed, on November 2nd, before the War had ended, Mr. Lloyd George had written to Mr. Bonar Law stating that there ought to be a general election as soon as the military situation permitted; that 'it should be a Coalition Election'; and that 'the test' for candidates should be 'a definite pledge to support this Government'. A letter of recommendation signed by Mr. Lloyd George and Mr. Bonar Law ('the coupon') was given to those who gave such a pledge, and the country was asked to return those who would give 'reliable' support to 'the men who won the War'. In the absence of any real political issue these appeals, made in the circumstances of the time, proved irresistible; and the Coalition secured a majority of about 400 over the Labour men and the Independent or Asquithian Liberals who opposed its candidates.

The promised trial of the Kaiser was a picturesque feature of the election campaign. That he would somehow be brought to London and tried was generally expected, and there was even some discussion as to where his quarters should be in the Tower of London. According to one humorist the Lloyd George-Bonar Law pledge was that 'the Kaiser should be hanged in London after a fair trial'. Mr. Lloyd George denies that he ever promised to hang the Kaiser. It seems that at one of his election meetings a woman cried out 'Hang the Kaiser', and the Premier was understood to express approval.¹

¹ The following letter from a Cornish clergyman, which appeared in the *Daily Telegraph* at the end of June 1933, throws light on the 1918 Election promises of the Coalition Government:

'1918 Election Promises

'Sir—In the *Encyclopædia Britannica*, 12th edition, Vol. 30, p. 1024, one reads: "In response to a popular agitation for the trial of the Kaiser, &c. . . . Mr. Lloyd

George, on the eve of the election (December, 1918) announced that these points were included in the Coalition programme. . . .”

‘Whether Mr. Lloyd George actually used the phrase “Hang the Kaiser” or not is best known to himself, but he gave a definite undertaking in his election promises that the Kaiser was to be tried for his share in precipitating the war.

‘These election promises had the punishment of the Kaiser at the top, and the “provision of houses for the people” at the bottom. To an audience I addressed at the time I suggested that the list should be turned upside down. Of course, I was howled down. Fourteen years have passed, and the Kaiser is still at Doorn, and the housing problem speaks for itself.—Yours, &c.,

‘(Rev.) WM. P. BATES.

‘Penzance, June 29, 1933.’

CHAPTER II

POLITICAL CONDITIONS AFTER THE WAR 1919-1933

1. *The Post-War Coalition Government*

IN the newspapers the general election of December 1918 was described as a 'landslide' or 'an overwhelming victory for Mr. Lloyd George'. So it was in a sense, though Mr. Lloyd George owed it to the combination of his rather small following of Liberal Coalitionists with the whole Tory Party under Mr. Bonar Law. The device of the 'coupon', which was given to the Liberal followers of Mr. Lloyd George and the Conservative followers of Mr. Bonar Law, prevented any competition or contest between the Liberal and Conservative supporters of the Coalition, while the Independent or Free Liberals, whose survivors in the House of Commons were wittily named the 'Wee Frees', and the Labour candidates, lost together quite fifty seats as a result of three-cornered contests. When the last results were made known it was found that out of 707 parliamentary seats the Lloyd George-Bonar Law Government Coalition had secured 526, leaving 181 to the non-Coalition group. The Labour Party obtained 63 seats and the Independent Liberals 33. Of the Irish Home Rule Party, founded by Butt and Parnell, which had 78 members in the previous Parliament, only 7 survived. The Sinn Feiners gained no less than 73 seats; but as they demanded an independent Irish Republic, they did not attend at Westminster or take their seats.

But though the victory was in a parliamentary sense overwhelming, seeing that the Coalition won four out of every five seats in Great Britain, the elections were not nearly so discouraging to the Opposition Parties as they appeared to be. Before the returns were quite complete it was shown that less than five and a quarter million votes secured 487 seats for the Coalition, while a poll of 2,301,000 yielded the Labour Party only 58 members, and a vote of just under 1,300,000 returned only 28 Independent Liberals. Moreover, only 50 per cent. of the electors voted. Hence, as Mr. Philip Snowden pointed out in *Common Sense* (January 4th, 1919), 'Mr. Lloyd George, under favourable circumstances which can never be repeated, has failed to secure the support of more than

twenty-five per cent. of the registered electors of the country.¹ He has done this at a time when the mood of the people was amenable to appeals on the ground of gratitude, and when they were under the spell of emotion and passion which will quickly pass away.' The tactics he proposed as a Labour Leader were that the Labour Party and the free Liberals should act together, and that the first work of the next Democratic Parliament should be, by a system of Proportional Representation, 'to reform our electoral system so as to make impossible the repetition of the scandal and injustice by which four-fifths of the Parliamentary representation has gone to a bare majority'.

In estimating the political and economic consequences of the War we must, however, admit that this election was immensely important; for the complexion of the Members of the House of Commons proved to be a decisive factor in British policy during the Versailles negotiations. The candidates who received the 'coupon' or letter of recommendation from Mr. Lloyd George and Mr. Bonar Law were pledged to give 'reliable' support to the Coalition Government which had won the War and was about to make a victorious peace. Glowing promises that Germany should pay the cost of the War, that Britain should be made a land fit for heroes to live in, that the Kaiser should be hanged after a fair trial in London, and so forth, however absurd and ridiculous, proved irresistible to masses of ignorant, credulous, and excited voters at a moment of confusion and emotion when the return of the troops was just beginning, and the revulsion from despairing apathy to fantastic hopes of a new era put cool judgement and political foresight out of the question.

Apart from the change in its composition the new Parliament exhibited a striking contrast to the old, owing to the disappearance of many leading figures. Among the Liberals, Mr. Asquith, Mr. McKenna, Mr. Runciman, Mr. Herbert Samuel, and Sir John Simon, lost their seats. Among the leaders of the Labour Party, who suffered the same fate, were Mr. Ramsay MacDonald, Mr. Philip Snowden, and Mr. Arthur Henderson. All these were defeated by 'coupon' candidates. Among the Irish Home Rulers, Mr. John Dillon and other famous parliamentarians disappeared from Westminster. The small Labour Opposition was led by Mr. Clynes, and

¹ Including of course Ireland.

the still smaller Liberal Opposition found an admirable leader in Sir Donald Maclean, until a seat was found at a by-election for Mr. Asquith.

For many months Mr. Lloyd George was engaged with British and Empire Delegates in Paris on the Versailles Treaty,¹ while Mr. Bonar Law remained at Westminster managing the House of Commons, where the huge and predominantly Conservative majority at first paid little attention to the criticisms of a divided and discordant Opposition. The Independent Liberals and Labour members were, indeed, generally agreed on such questions as the abolition of conscription, the restoration of civil liberty, and the removal of embargoes on trade; but, while the Liberals under Sir Donald Maclean made insistent demands for national economy, Labour was becoming increasingly socialistic, and was pressing for more and more expenditure on the social services. At first, during the brief period of inflation and feverishly good trade, which came to an end towards the close of 1920, the extravagance of the Government and its costly military adventures in Russia and the Middle East were applauded or tolerated by most of its supporters; and for a time the Coalition leaders, bound together by office, presented a united front to their critics. As soon as the Peace Conference was concluded Mr. Lloyd George and Mr. Bonar Law turned their attention to the organization of the Coalition Liberal and Conservative forces in the constituencies. A scheme for forming a new and permanent Coalition Party was first publicly ventilated by Mr. Winston Churchill at a meeting on July 15th, 1919, when he declared that there was 'no deep division of principle' between the two sections of the Coalition. Sir George Younger, the chief Conservative organizer, who was present, said he hoped to see a new party formed on the foundations of the present Coalition; and in an interview six months later he said he had always hoped 'that the present Coalition would form the foundation of a permanently fused Party'.² The breach between the two sections of the Liberal

¹ At this time the League of Nations Union was formed, originally to press for the inclusion of the League Covenant in the Peace Treaties and afterwards to ineulate the value of the League and of Peace Principles. This important organization is now supported by leading statesmen of all parties.

² *Evening Standard*, January 13th, 1920. The sale of titles after the War—mainly to profiteers who had reaped huge paper fortunes—supplied immense funds which (so the late Lord Birkenhead told me) were divided equally—'fifty-fifty' he said—between Mr. Lloyd George and Mr. Bonar Law.

Party widened. At by-elections 'coupon' candidates were supported against the freely chosen representatives of Liberal Associations. A notable case occurred at the Spen Valley by-election in December 1919, where Sir John Simon, the candidate adopted by the Liberal Association, was defeated by a Labour opponent owing to the intervention of a Coalition Liberal-Conservative candidate to whom Mr. Lloyd George sent a personal message of support. Mr. Lloyd George's action in this case was not surprising; for he was still smarting under a blow which Sir John Simon had dealt a few months before to the embargo system.¹ But the incident aroused much indignation among Liberals, and many Liberal Associations passed resolutions supporting Sir John Simon and condemning the Coalition.

In May 1920 the annual meeting of the National Liberal Federation was held at Leamington, and was attended, as usual, by delegates from Liberal Associations all over England, and Liberal members of Parliament who were, under the rules, entitled *ex-officio* to be present. A resolution was moved declining Mr. Lloyd George's invitation to enter into 'closer co-operation' with the Conservative Party, and calling upon all sections of Liberals 'to maintain the independence of the historic Liberal Party'. It was opposed by the Coalition Liberal members, who withdrew in a body, but was then carried with only four dissentients.

This breach between the two sections of the Liberal Party was followed by the establishment of separate Coalition Liberal organizations in the country; but the idea of a Centre party was dropped. The Coalition Government became more and more unpopular. Its actions in Ireland, especially its ruthless 'reprisals' against Sinn Féin (which are described in the next chapter) and a wasteful outpouring of public money both at home and abroad, made its opponents very angry and its supporters very uneasy. The seeds of future mischief had been sown in the Versailles Treaty. The war in Russia dragged on. Currencies were collapsing on the Continent; and when trade began to decline, in the course of 1920, a change came over the political scene, and the Coalition Government of Mr. Lloyd George and Mr. Bonar Law began to suffer for its extravagance at home, its military adventures abroad, and its

¹ See Sir John Simon's letter to the Press, August 16th, 1919, quoted on p. 138.

inability or unwillingness to fulfil the promises given at the Coupon Election. A satirist summed up the situation in some doggerel verses:

On the Anniversary of the Peace of Versailles

(Supposed to have been written by a Junior Minister in Mr. Lloyd George's Coalition Government on June 28th, 1920.)

Three hundred days and sixty-five have passed since peace was signed—
A peace most just and generous, magnanimous and kind.
'Tis true that captious critics raise a number of objections,
Which are constantly repeated at these tiresome by-elections.
Some say the Kaiser is unchanged, the indemnity unpaid,
That wars are still proceeding as if peace had not been made;
That prices still are rising, that rates and taxes grow,
That promises are numerous, but execution slow.

But we who thrive in office know that all is for the best,
Though Japs are fighting in the East and Polaks in the West.
In Araby and Palestine, Armenia and Albania,
Slaughter and massacres attest a military mania.
We cannot stop the fighting, but as peace has now been made,
We'll never say a war's a war or call a spade a spade.

Moderate Conservatives began to regret the continuance of their Coalition with Mr. Lloyd George. Instead of the expected lowering of taxation, Mr. Austen Chamberlain, the Chancellor of the Exchequer, had graduated the super-tax up to twelve shillings in the pound on the highest incomes, and the taxation of the people per head, according to the Treasury's estimate, had been multiplied by six since 1914. About this time (June 24th, 1920) there appeared in one of the London newspapers an article by Lord Robert Cecil, which constituted a weighty Conservative indictment of the Coalition Government's policy. He saw a vast load of debt, enormous charges for pensions, and other formidable burdens which could not be lightened by any juggling with taxation. 'There is only one really satisfactory way', he wrote, 'of improving our financial situation, and that is by diminishing our expenditure. That process must be applied all round, to internal as well as to external affairs.' But Lord Robert held that economy in internal matters meant 'cutting off a little here and there until the total saving becomes really considerable'. He therefore devoted the main part of his article to economy in external affairs, which could 'only be achieved by giving a resolute turn in that direction to our foreign policy'.

This meant, as he said, that 'we must set our faces against all proposals of military adventure, both by ourselves and, as far as possible, by any other country'. For this reason he regretted Mr. Lloyd George's Russian policy, his Polish policy, and his latest design of joining Greece in a new war against Turkey. He was unhappy about the cost of Palestine and about our interference in Arabian affairs. He favoured complete withdrawal from Mesopotamia and Persia, and would have made economy the guiding principle of our foreign politics. The expenditure of a country must be treated as a whole, and a sum must be prescribed beyond which national expenditure cannot be allowed to rise. In June 1920 it was somewhere about 1,200 millions. This had to be greatly reduced, whether to 800, 900, or 1,000 millions, Lord Robert Cecil was not certain. But he declared that 'once fixed it should not be departed from except in the case of grave national emergency'.

While anti-Coalition sentiment was growing in the Conservative Party, Mr. Lloyd George's concessions to his protectionist colleagues made the majority of Liberals feel that the Coalition Liberals were ceasing to be Liberals at all. It is true that Mr. McKenna started Protection during the War (in the so-called McKenna Duties) but only for the period of the War. In the 1919 Budget Mr. (now Sir) Austen Chamberlain confirmed these duties and introduced the principle of Imperial Preference; but this change, though strenuously opposed by Free Traders, did not involve the imposition of new tariffs. In August 1919 came the withdrawal of embargoes, a free-trade triumph. But in 1920 the Dyestuffs (Import Regulation) Act created a new monopoly based on the licensing of imports; and in 1921 the Safeguarding of Industries Act, a definitely tariffist piece of legislation, opened the door to a wide extension of Protection. In the same year an Imperial Conference was held in London at which the Japanese Alliance was challenged. This led to naval negotiations at Washington, which ended successfully in a Pact between the United States, Great Britain, and Japan for the limitation of naval armaments.

Meanwhile the Conservative Party became more and more anxious to sever its connexion with Mr. Lloyd George, and the Coalition Government came to an end, but not before it had divided Ireland (by recognizing the Free State of Southern Ireland) and introduced 'Dyarchy' in India. The immediate cause of its downfall

was Mr. Lloyd George's threat of a renewal of war with Turkey. The Turks had obtained a victory over Greece in Asia Minor; and on September 16th, 1922, the Cabinet issued a manifesto which was virtually a call to arms, and invited the Dominions to remobilize in defence of the Straits, which 'hallowed the immortal memories of the Anzaes'. This manifesto caused an immediate outcry in the press, and it was promptly denounced by the leaders of the Opposition Parties. Happily peace was preserved by General Harington. A Conference was held between the representatives of Turkey and the Allies, and the danger passed. The incident served, however, to bring to a head the discontent that had been gathering in the Conservative Party. Earlier in the year an Opposition group had been formed under the leadership of Lord Salisbury; but Mr. Austen Chamberlain, Lord Birkenhead, Sir Robert Horne, and others still supported the Coalition, and were in favour of continuing its existence indefinitely. In October, however, Mr. Baldwin and other minor members of the Government expressed strong dissatisfaction with the Coalition. On October 19th a Conservative Party meeting held at the Carlton Club decided by a large majority to fight the forthcoming election 'as an independent party with its own leader and its own programme'.

Mr. Bonar Law (who had signed the joint election manifesto with Mr. Lloyd George in 1918, and was leader of the House of Commons in the Coalition Government from 1916 onwards) had resigned in March, 1921, owing solely (it was said) to ill health and not to any change of attitude towards the Coalition. At the Carlton Club meeting, however, he spoke in favour of the resolution opposing the Coalition; and his influence was decisive. Mr. Lloyd George resigned, and Mr. Bonar Law became Prime Minister.

A general election was held immediately, and Mr. Bonar Law's policy of 'tranquillity and stability' won a clear majority of 70 for the Conservatives. The Coalition Liberals went into the election as a separate group under the name of National Liberals, and lost over half their seats. The independent Liberals doubled their membership (having 64 seats, compared with 53 for the National Liberals); and the Labour Party, with 142 seats, became for the first time the second largest party. The electoral system favoured the Conservatives, for the votes recorded were: Conservatives, 5,500,000; Labour, 4,250,000; Liberals (both sections), 4,100,000.

Thus ended the Parliament elected under war-time influence amid general rejoicing. As *The Times* said on October 21st, 1922: 'Never in living memory has the fall of a British Government caused so little commotion or evoked so small a measure of public regret as that of Mr. Lloyd George's last Coalition.' The *Daily Mail* (which had helped to create it) declared: 'Britain has had no more unpopular administration since the days of the Stuarts.' But this of course was an exaggeration.

The new Parliament was destined to be shortlived. But (in October 1933) before its decease another Imperial Conference met, chiefly to discuss the extension of Imperial Preference.

2. *The Elections of 1923 to 1929*

When the War ended an astute American observer of British politics predicted that Britain would have a succession of short administrations. He foresaw the confusion of party politics that would follow; and he was right in his diagnosis, though the verification of his forecast was delayed for a few years. The Coalition Government, which was returned with such an immense majority in December, 1918, had at first no difficulty in holding together; for so long as the trade boom lasted the public did not seem to mind how much money it squandered. But two years later, when the boom was followed by the inevitable post-war depression, the burden on the taxpayers grew intolerable. Under pressure from business men the Government appointed the Geddes Committee to suggest reductions of national expenditure; it was no longer possible to buy popularity, and the Coalition soon found itself in general disfavour. Its subsequent swift and bewildering changes of policy at home and abroad, and the disillusionment that followed its failure to produce the promised millennium contributed to the political confusion. General elections succeeded one another rapidly in 1922, 1923, and 1924.

In November 1922 Mr. Bonar Law and the majority of the Conservative Party, who had thrown over the Coalition and adopted the slogan of 'Tranquillity and Stability', obtained a comfortable majority. A few months later he was attacked by a fatal disease, and on his retirement Mr. Stanley Baldwin became Prime Minister.

In the following autumn, to the amazement of everybody, Mr.

Baldwin suddenly decided to dissolve Parliament and appeal to the country in order to obtain a mandate for Protection. At the 1922 election Mr. Bonar Law had given a pledge not to alter the country's fiscal system; but Mr. Baldwin wished to be released from this pledge because, he said, he had become convinced that Protective Tariffs were the only remedy for unemployment. This issue reunited the two sections of the Liberal Party in defence of Free Trade. The Labour Party also opposed Protection, and the election of December, 1923, in spite of three-cornered contests, converted the Conservative majority of 70 into a Labour-Liberal majority of 90.

As the Labour Party was slightly more numerous than the Liberal Party, the King sent for Mr. Ramsay MacDonald, who formed the first Labour Government of Great Britain. The Labour Party had not a clear majority in the House of Commons, and the Government was dependent for its existence upon Liberal support. This it received in as full a measure as could be expected; and it was enabled thereby to carry in the teeth of Conservative opposition a Free Trade Budget, which abolished most of the protective duties and Imperial preferences then existing. Mr. MacDonald was also at first successful in his conduct of foreign affairs; but, unfortunately for him, the extreme Socialists in the Labour Party induced the Government to commit itself to a guaranteed loan to Soviet Russia. Against this proposal the Liberals protested, and the Government might have been defeated upon it; but before the loan came before Parliament, Mr. MacDonald found himself in another difficulty. An obscure Communist paper had published an Open Letter to the Fighting Forces which was regarded as an incitement to mutiny. Proceedings were instituted against the editor, Mr. J. R. Campbell, and then suddenly withdrawn. The Conservatives proposed a Vote of Censure on the Government in connexion with the Campbell case, but the Liberals, to avoid forcing an election, moved an amendment to appoint a Select Committee to inquire into the matter. With Conservative support, the amendment was carried; and thereupon, Mr. MacDonald, rather than face an inquiry, asked for a dissolution, and the King granted his request.

At the subsequent election, in October, 1924, the Conservatives fought almost entirely on the issue of Socialism. They insisted that public economy was 'imperative', and pledged themselves not to

introduce protection, except for a limited experiment in 'safeguarding' any industry that could prove it was suffering from unfair competition. They denounced Socialism and Communism, pointing to the Labour Government's surrender to Russia. Their campaign received a powerful impetus some few days before polling through the publication, in the *Daily Mail*, of a letter alleged to have been written by a Russian Bolshevik leader, M. Zinovief, inciting British Communists to overthrow the government and constitution of Great Britain by violence. The effect of this letter was prodigious; the nation was furious, and determined to put down all foreign plots and Socialist intrigues. Multitudes of quiet non-political people rushed to the polling-booths, and many moderate Liberals voted Conservative for the first time in their lives. As a result the Conservatives secured a majority of 200 over all other parties. The Labour Party lost 40 seats, and the Liberals lost far more, being reduced from 158 members to 42. Among the defeated candidates was Mr. Asquith, who then accepted a peerage and became Earl of Oxford. The Liberal losses were due mainly to two causes: first, the electors wanted to get as far away as possible from Socialism, and the Liberals were regarded as Laodiceans, who could not be trusted because they had allowed a dangerous Labour Ministry to take office; and secondly, the Liberals, owing to lack of party funds and to the failure of Mr. Lloyd George to give the financial aid they had expected, were not able to put sufficient candidates in the field to enable them to obtain a clear majority. Moreover, the nation resented the disturbance of another election. People were tired of unstable minority governments and wanted a period of security.

For the next four and a half years, until May 1929, Mr. Baldwin was again Prime Minister. The period was one of comparative tranquillity, except for the upheaval of the General Strike in 1926. In the autumn of the same year an Imperial Conference was held in London. Its chief task was to define the constitutional relations of the self-governing Dominions to Great Britain and foreign countries. Mr. Arthur Balfour, now become Earl Balfour, presided over a Committee, which included the Colonial Prime Ministers. It agreed upon a report, which is entitled *The Report of the Inter-Imperial Relations Committee*, and is still quoted as an important landmark in the history of the British Empire. In it, the group of

self-governing communities composed of Great Britain and the Dominions are thus defined:

‘They are autonomous Communities within the British Empire, equal in status, in no way subordinate one to another in any aspect of their domestic or external affairs, though united by a common allegiance to the Crown and freely associated as members of the British Commonwealth of Nations.’

Every self-governing nation of the Empire, the Report added, ‘is now the master of its own destiny’.

Several ‘popularity’ measures were passed, including the introduction of Widows’ Pensions, and the extension of the franchise to practically all women over 21 years of age; and though tariffs were reimposed on motor-cars, &c., and new ‘safeguarding’ duties were placed on silk, lace, and a few other articles, there was no attempt to impose general Protection. As time went on, however, the Government became unpopular, partly because it did not redeem its pledges to reduce public expenditure, and partly owing to continued bad trade and unemployment.

Consequently, at the general election of 1929, the huge Conservative majority was dissipated. Labour secured 288 members; the Conservative Party 260; and the Liberal Party only 59. The Labour Party was lucky in becoming the largest party in the House of Commons, for it actually received fewer votes than the Conservatives. But it had failed to secure an absolute majority, and so was again compelled to rely upon Liberal support. The Liberals lost heavily through the unfair electoral system (for they had obtained a quarter of the total votes cast, though they obtained only one-tenth of the seats) and were bitterly disappointed, because they had placed high hopes upon their campaign to ‘conquer unemployment’, which had been lavishly supported out of Mr. Lloyd George’s funds.

For a time, the second Labour Government, remembering the lessons of 1924, held its Socialist Wing in check; and was kept in office by Liberal support, although conflicts arose over the Coal Mines Bill, and a Trade Union Bill was defeated. During the year 1929—and especially after the great Wall Street collapse in the autumn—world trade grew worse, and unemployment in this as in other countries increased. In consequence, the Labour Government was sharply criticized, not only by critics in other parties, but also by their own Left Wing followers. For a time, these attacks were

staved off by a common agreement between Labour and Liberal Parties to resist a new campaign for Protection, which was being conducted with vigour both by the official Conservative Party and by Lord Beaverbrook and his 'Empire Crusaders'. But the ever-rising expenditure and the insatiable demands of Labour for more and more doles made Liberals impatient and restive. The House of Commons (with the consent of Mr. Snowden, the Chancellor of the Exchequer, whose warnings had been ignored by his own Party) insisted upon the appointment in February 1931 of another Committee on National Expenditure, similar to the Geddes Committee of 1921; and when this Committee issued its report—the 'May Report'—a crisis was precipitated, and the Government fell. Most of the Labour Ministers decided to resign on finding that the trade unions were opposed to reductions in the social services.

Mr. MacDonald remained Prime Minister, and formed a National Government, containing representatives of all parties, for the single purpose of restoring the financial position of the country. Mr. Snowden continued to be Chancellor of the Exchequer, and without delay introduced a new Budget, imposing further taxation, and an Economy Bill, carrying out the main reductions of expenditure proposed by the May Report. In spite of these measures the country was driven off the gold standard; but as the Budget had been balanced, the situation was kept in control and no further crisis occurred.

The Conservative Party then urged that, as the financial position had been restored, a general election should be held in order to obtain a 'free hand' to restore the balance of trade. Even a resort to Protection was to be included, provided that—a concession made in order to remove Liberal anxieties—tariffs were found after examination to be necessary. The Liberal Ministers opposed the suggestion to hold an election, but they were unable to prevent it; and the result was an overwhelming victory for the National Government. The Socialists had promised, if they were returned to power, that they would restore the cuts that had been made in unemployment benefit. But the unemployed vote proved insufficient, and it appeared that large numbers, even of the unemployed, in spite of their reduced 'doles', voted for the National Government.

Thus in one sense, the 1931 election terminated the influence of

the War, by putting an end to the idea that the State had a bottomless purse from which the poor might count upon drawing unlimited benefits. Public extravagance and the practice of borrowing received a check. But in another sense this election showed that the War was still influencing the course of British politics, for it certainly marked a recrudescence of economic nationalism. The Conservative candidates, many of whom advocated extreme Protection and Imperial self-sufficiency (though Mr. Baldwin did not), received the largest poll and secured the largest parliamentary majority ever obtained in the modern records of the British nation. They immediately pressed for the introduction of Protection, ignoring the terms of the mandate which the Government had obtained. The Free Trade Ministers resisted. They were allowed freedom to oppose the tariffs; but ultimately (in September 1932) they resigned from the Government. Two important Liberal members of the Cabinet, however (Sir John Simon and Mr. Runciman), remained, and by the autumn of 1932, a series of tariffist and preferential measures had been passed into law, which made Great Britain, in the wide range of her tariffs, though not in their height, as protectionist as any country in the world.

3. The Parties in 1933

Fifteen years after the end of the Great War the political parties in Great Britain seemed still to be travelling away from, rather than returning to, their pre-war positions and policies. The country and the whole world were troubled more than ever before by industrial and commercial problems. In Britain people were far more concerned with trade and employment than with those great constitutional questions which excited so much attention before the War. Partly as a legacy of the War, which taught politicians new but not better methods, and partly owing to the enormous increase in the electorate, the parties thought less of fundamental principles and more of attractive programmes. The absence of statesmen of the older type, who were able to inspire strong loyalty among their followers, and the lack of coherent philosophy to guide and unify policy, made the parties fissiparous and unstable. Socialism, Nationalism, and Liberalism contended in the arena of thought; but there was a general distrust of politicians.

The Conservative Party, outwardly the most united of the three, and on the whole the most powerful, was nevertheless divided beneath the surface, and a large section of its members would have preferred to form a separate Government. They could not, however, agree on a leader.

The Labour Party was divided into three sections—a small National Labour group which followed Mr. MacDonald, the official Opposition party which was led in Parliament by Mr. George Lansbury, the only well-known Socialist to escape defeat in 1931, and a detached Marxist group, of which Mr. James Maxton was the most prominent member. The main body of the party, though it had received so severe a set-back, proceeded at its annual conferences to frame Socialistic programmes of an even more extreme nature than that which had lost them the last election.

The Liberal Party, though it had increased its numbers to 72, was weakened by divisions and disputes. Mr. Lloyd George, who had been unable through illness to join the National Government when it was first formed, had given the advice that Socialists should be supported at the general election of 1931 in constituencies where there was no Liberal Free Trade candidate. When his advice was rejected, he retired into isolation and found himself with only three or four supporters in the new House of Commons, though he had still a considerable following among the rank and file. In 1933 he abandoned Free Trade and proclaimed himself in favour of Protection for British farmers. Sir John Simon, Mr. Runciman, and nearly half of the other Liberal members of Parliament, who had become 'Liberal Nationals', accepted tariffs, and supported the Government unreservedly. The other half of the Liberal Parliamentary Party, under Sir Herbert Samuel's Free Trade leadership, retained the control of the Liberal Party machine and the support of the main body of Liberals in the country.

The nation as a whole was bewildered by the appearance of so many parties and sections of parties, and had little faith in any of them. In what manner they may regroup themselves, it is, in 1934, impossible to foresee, but it seems unlikely that there will be a return to the simplicity of pre-war conditions with its two main parties. The principles and aims of Conservatism, Liberalism, and Socialism are quite distinct and cannot be reconciled. A system of Proportional Representation has therefore become necessary if

public opinion is to be fairly reflected in the House of Commons. In the existing state of confusion no reliable prophesy can be made; but the situation is full of interest alike to political speculators and to patriots who hope that the future government of the oldest democracy among the great nations of the world will be worthy of its past. Moreover, among foreign admirers of the British Commonwealth, which has for so long combined political and individual liberty with law and order, there is intense anxiety that it should remain untarnished, a shining example to those nations that have relapsed into servitude.

CHAPTER III

LABOUR AND SOCIALISM

THE formation of the first and second Coalitions and various other developments during the War, while they strengthened the Conservative at the expense of the Liberal Party, seemed at the time to have little or no direct effect upon the political power of Labour. But Conservatism and Liberalism both suffered from Coalition compromises as well as from the miseries and disappointments of the War. Its influence on Socialism and the Labour Party was at first more obscure. Beneath the surface several tendencies were at work which eventually brought about great changes in the political aims of British trade unionism, making it more definitely Socialistic, separating it from the Liberal Party and enlarging its interest in foreign policy. Whether they added much to its numerical strength in the constituencies is more doubtful. Other factors were at work, including especially its gradual identification with pacifism, which attracted a large number of Liberal recruits.

Throughout the War most of the official Labour leaders, both in the House of Commons and in the trade unions, supported the Government, assisted in recruiting, and co-operated in the avoidance of industrial disputes. In October 1914 a manifesto was issued by 'the Labour Movement of Great Britain as represented by the Labour Party and the Trade Union organizations' supporting participation in the War; and when the Coalition Government was formed in May 1915, one representative of the Labour Party, Mr. Arthur Henderson, was admitted to the Cabinet as Minister of Education. On the other hand, the Independent Labour Party, a vigorous minority section of the Labour Party, led by Mr. Ramsay MacDonald and Mr. Philip Snowden, had opposed the declaration of war and consistently supported peace diplomacy. This group at first was comparatively small; but their numbers increased as time went on, and their moral courage won them respect and an ever-increasing reputation. A number of Peace Liberals joined them after the War, especially during the negotiation of the Versailles Treaty, when Mr. Asquith and Lord Grey refrained from opposing the policy of Mr. Lloyd George and Mr. Bonar Law.

Throughout the War, however, a majority of the Labour Party

and most of the trade union leaders maintained their support of war aims and opposed negotiations for peace until the enemy were defeated. In January 1917, when the Labour Party Conference agreed to give its support to the second Coalition, it passed a resolution saying that 'the fight should continue until victory is achieved'. Conscription, however, was another matter, and on this issue there was much opposition. When the threat of compulsory service first became serious in September 1915, the Trades Union Congress passed a resolution offering its congratulations to those who had volunteered for service, but opposing conscription; and in January 1916, when the first Military Service Bill was introduced, the Labour Party expressed its opposition, though only about a third of their members in the House of Commons actually voted against the Bill.

It was, however, in the industrial sphere, rather than in politics, that the War produced its most striking effects on the Labour Movement, tending on the whole to increase the power of the trade unions, more especially their control of wages. It is true that the Government assumed wide powers under the Defence of the Realm Act, and numerous restrictions were placed on workers engaged in the production of munitions and other forms of national service; but neither wages nor profits were effectively controlled. The dominating factors during and owing to the War were a shortage of labour and also a great increase in prices resulting partly from scarcity, partly from inflationary loans and large issues of paper money. These factors led to a strong demand for higher wages, and organized labour used its power to the full until the alternative of conscription for refractory workers produced a more submissive state of mind. Again, as part of the State's efforts in prosecution of the War, various socialistic expedients were put into operation; and Socialists were able to point to the many forms of bureaucratic control over prices, food supplies, industry, transport, and housing, as evidence of the practicability and even the desirability of nationalization, though the unpopularity of State regulations after the War was speedily manifested by the people at large.

To appease Labour unrest, advances in wages were only too readily granted by the Ministry of Munitions and other Government Departments. In order to meet the demand of labour for improved status, the Whitley Committee was appointed in 1916. It recommended the establishment of Joint Industrial Councils. These

‘Whitley Councils’, which brought the workers into consultation regarding matters affecting the conduct of industry, were set up in the large organized trades. In 1917 a Commission of Inquiry into Industrial Unrest was appointed, and as a result further steps were taken to control prices, and labour conditions were improved.

In the same year came the revolutions in Russia, which encouraged and animated Socialists all over the world. In the summer of 1917, before Kerensky had been ousted by Lenin, the Russian Socialists issued an invitation to the proposed Stockholm Conference—a revival of the Socialist International—which was to be attended by Socialists from all countries, including Germany. Mr. Arthur Henderson, who, besides being a Member of the British War Cabinet, was at that time Secretary of the Labour Party, was strongly in favour of accepting the invitation to Stockholm, and had to resign from the Government in consequence. The Labour Party was divided on this issue, but finally decided on August 21st, 1917, by a narrow majority of 1,234,000 votes to 1,231,000, that delegates should be sent, on the understanding that the Conference was to be ‘consultative and not mandatory’. Sharp differences of opinion also manifested themselves among Socialists in other countries—the French Majority Socialists and the Belgian Socialists were definitely opposed to the project—and in the end the Conference was postponed *sine die*. But the Stockholm Conference and the creation of a great Soviet State in Russia marked an intensification of English and Scottish Socialism, which in Glasgow and some other centres began to develop into Communism.

When arrangements were being made by Mr. Lloyd George and Mr. Bonar Law for the ‘coupon’ election at the end of the War, it was originally intended to retain the Labour Party in the Coalition, and references were made to the ‘three wings’ of the Coalition. The Labour Party as a whole was, however, strongly opposed to such a move. A Labour Conference, held in London on November 14th, 1918, resolved ‘that the party shall resume its independence and withdraw its members from the Government at the close of the present Parliament’. Mr. J. R. Clynes, a Minister at the time, moved an amendment to the effect that ‘upon peace being signed, the party should resume its freedom of action’; but his amendment was defeated by a majority of two to one, and the resolution was carried by 2,100,000 votes to 800,000.

In all belligerent countries that suffered defeat, as well as in Italy and in some of the new States which were carved out of the Russian and Austrian Empires, the War was followed by a train of commotions and civil convulsions, in which the sharply antagonistic, yet in many ways similar, creeds and organizations of Communism and Fascism have played a prominent and often a preponderant role. The Marxist or Communist flag is the standard under which the forces of the most desperate poverty and discontent have usually been enrolled. Fascism has been the rallying point of another set of forces, which felt that the State must defend itself at any cost against the Russian Soviet system with its complete confiscation of private property. Yet State Socialism of the Fascist or Nazi type involves a loss of political liberty and freedom of thought which Englishmen could not endure. The Police State cannot be harmonized with the English character or the English Constitution. In spite of their Socialist leaders, the Trade Unions in the autumn of 1933 condemned all dictatorships.

In England immediately after the Armistice, when the soldiers were discontented at the slowness of demobilization and the refusal of Mr. Lloyd George's Government to abandon a number of small wars, there were outbursts of Republican Socialism among some of the troops and trade unions which looked for a moment formidable and dangerous. But this menace to society passed away in 1919; conscription and the Press Censorship were abolished, and at the general elections since that time, Communists have played hardly any part in English politics, though they are still (in 1934) a factor in Glasgow, Greenock, and some of the industrial districts of the North. Their comparative insignificance is usually attributed to the existence and operation of the unemployed dole, which has saved our working classes from the acute starvation and misery which they endured in the period following the Napoleonic Wars. On the other hand, the doctrines of Karl Marx have coloured the writings and speeches of all our leading Socialists, and the Russian Soviet system has been held up to admiration by Mr. Bernard Shaw and many others. It was not until 1933, after the outbreak of a terrible famine in Russia and the failure of the Five Year Plan, that the trade union leaders began to dissociate themselves explicitly from the methods and aims of Bolshevism.

Owing in part to the absence of Communism as a threat to

society, the corresponding movement of Fascism, which conquered Italy under Mussolini, and has since conquered Germany under Hitler, has hardly ruffled the surface of British politics. One or two small clubs and societies have been formed by militarists and imperialists; but no organization existed until Sir Oswald Mosley, who since the War has been in turn a Conservative, an Independent Liberal, and a member of Mr. MacDonald's Labour Government, employed his versatile talents and wealth in organizing what he calls a Fascist Party. He was immediately repudiated by the Labour Party. He contested a seat at the election of 1931, but polled very few votes. He has held meetings in various towns, and his platform has been defended by a band of pugilists, who have indulged in free fights with Communist interrupters. Fascism, however, is not likely to attract any large body of Englishmen, unless indeed a combination were required to repel Communism or Republican Socialism.

The growth of Socialism during the War, to which reference has already been made, continued in the following years, and was accelerated when the post-war depression came in 1921. The trade unions fell almost universally under Socialist control, and the vast masses of organized Labour were taught to be 'class-conscious' and to vote 'for their own class'—i.e. for the Labour-Socialist Party—whether they really believed in Socialism or not.

State Socialism, as expounded by Mr. and Mrs. Sidney Webb, Mr. Bernard Shaw, and many other minor propagandists, became the official policy of the Labour Party, and found an increasing number of adherents among its ranks. This school differed from the Communists in disliking 'direct action' by political strikes or violent methods, and a small separate 'Communist Party of Great Britain' was founded in July 1920. Orthodox British Socialists look to the State as the sole source of wisdom and authority, and seek to place all enterprise under State ownership or control, and to subject the individual in almost every detail of his life to State regulation. To Mr. Shaw and the doctrinaire Socialists, democracy was a tolerable form of government only in so far as it paved the way to a bureaucratic Socialistic State. Public economy was anathema to them, and the controversy between Free Trade and Protection a matter of indifference. They held that the State and its officials could manage business better than business men,

and regulate prices better than the commercial markets. They were in favour of making costly additions to the Civil Service in order to promote this policy. The Fabians taught 'the inevitability of gradualness', and for a time restrained the impatience of less cautious Socialists to extinguish private capital by rapid methods.

Then there were the political economists of Socialism—some of whom, like Mr. G. D. H. Cole, the exponent of 'Guild Socialism', sharing the contempt of other Socialists for individual liberty and *laissez-faire*, professed to advocate 'liberty' with a quite different connotation. Mr. Cole held that individualism meant 'starvation and slavery under the guise of liberty of action', and State Socialism meant the production of 'well-fed machines working for a greater machine, the State'. He and his friends described British workmen as 'wage slaves'. To remedy this state of affairs they advocated class warfare, the expropriation of capitalists, and the 'strike for control'. These theories had some vogue, and helped to encourage the idea of 'direct action', which was very popular for a few years, culminating in the General Strike of 1926. But the victory of Communism in Russia was far more important; for it seemed to prove that the Socialist programme could be attained more easily through industrial action than by constitutional and parliamentary action. The first overt threat of 'direct action' arose out of a cause directly due to the War. In July 1920 Poland (which had been created out of the territory of Russia, Germany, and Austria, as part of the settlement after the War) was in danger of being overrun by the Bolshevik army. Lord Curzon, who was then British Foreign Minister, sent Russia a note forbidding her advance beyond a frontier line, which he defined; the Prime Minister, Mr. Lloyd George, declared that the Poles must have adequate equipment; and the Baltic Fleet was set in motion. The immediate effect of these movements, amounting to a threat of war against Russia—which was even more repugnant to the Socialists than a war against any 'capitalist' country—was the formation of the Council of Action. A joint Conference representing the Trades Union Congress, the Labour Party, and the Parliamentary Labour Party, held in the House of Commons on August 9th, 1920, resolved that a war with Russia 'would be an intolerable crime against humanity', that affiliated organizations be advised 'to "down tools" on instructions', and 'that a Council of Action

be immediately constituted to take such steps as may be necessary to carry the above decisions into effect'.

Fortunately the war talk ceased, and the projected Council of Action was not heard of again; but the incident gave some encouragement to extremists. Next year the 'Triple Alliance', which had been formed between the miners, the railwaymen, and the transport workers, threatened to strike in order to force the Government to nationalize the coal-mines, and their attitude was endorsed by the Labour Party. In the event, however, the Alliance split, and the miners alone entered upon the three-months' strike of April to June 1921. Its failure was a set-back to the direct-actionists, but after a complimentary exchange of visits between the Left Wing trade unionists and the Russian Bolsheviks, schemes for political strikes were again proposed in 1925, and an Anglo-Russian Advisory Committee was set up. Another coal crisis arose in July 1925, but was bought off for a time by a subsidy from Government funds while a Royal Commission examined the whole condition of the industry. Mr. MacDonald stated that 'the miners would have been supported by a General Strike' (*Forward*, October 17th, 1925)—a view echoed by Socialists and Communists alike.

In April 1926, after the Royal Commission had reported, the new Conservative Government mishandled the situation, and a coal stoppage occurred on May 1st. On May 3rd a general sympathetic strike took place on behalf of the miners. It had been organized by the Trades Union Congress, with the support of all the leaders of the Labour Party. 'We are in the battle with you', said Mr. Ramsay MacDonald. Thereupon, the Liberal leaders,¹ while sympathizing with the miners, supported the Conservative Government against this attempt to overawe and destroy constitutional authority. It was, said Lord Oxford in the House of Lords on May 4th, 'a blow directed at the very vitals of the whole community'. A powerful speech by Sir John Simon on the legal aspect of the General Strike contributed to its failure. On May 12th the General Strike collapsed (though the coal stoppage continued separately for six months), and the direct actionists were discredited.

But the division between the extreme and moderate Socialists

¹ With the exception of Mr. Lloyd George, who took a different view. This caused a renewal of divisions in the Liberal Party, which led to the resignation of Lord Oxford from the leadership.

in the Labour Party continued. On the one side were the Communist organizations, the Independent Labour Party, and the Socialist League, on the other side Mr. Ramsay MacDonald with his colleagues, whether in or out of office, and the Trades Union Council, which always in a large measure controls the Labour Party because it provides most of the funds as well as the local organization for elections. The politics of the Trades Union Council are dominated in the main by the common interests of the individual trade unions in wages, hours of labour, unemployment benefit, old age pensions, &c. It was their action in the summer of 1931 which broke up Mr. Ramsay MacDonald's second Labour Government when it sought to balance the Budget in part by reducing national expenditure on the unemployed. Thereupon the Labour Party went into opposition, and expelled Mr. MacDonald, Mr. Snowden, and Mr. Thomas for joining in the formation of the National Government. This gave the extremists an opportunity of which they took full advantage. Mr. Arthur Henderson and others advised moderation; but at the Conference of the Labour Party at Leicester early in October 1932, he was overruled, and a drastic programme of State Socialism was adopted by large majorities. The regulation of trade by Import and Export Boards had been part of the Labour policy at the general election of 1931. At Leicester further resolutions for the nationalization of industry were proposed and carried, and considerable alarm was created when a project for the nationalization of the Bank of England and all the joint-stock banks was added to the programme. The *News-Chronicle*, which hoped for a Liberal-Labour Government as an alternative to the National Government, wrote on October 6th, 1932, that the Leicester declarations were 'calculated to keep the Conservative Party in office for a generation'.

Encouraged by their successes at Leicester, the Socialist leaders began to develop schemes for overriding the Constitution and carrying their measures by some sort of dictatorship. Proposals to this end were made by Sir Stafford Cripps at a meeting of the Socialist League, and a similar appeal was addressed to the Trades Union Council and the Labour Party by the Independent Labour Party and the Communist Party. This, however, was more than the Trades Union Council could stand, and on March 24th, 1933, it issued a manifesto affirming its belief in democratic and constitutional principles. It declared that the constitutional working-class

organizations had been violated with persecution and terror by dictatorships in Germany, Italy, Poland, Russia, &c., that the ballot had been destroyed by the bullet, and that the scattered forces of social democracy must be rallied against the stream of reaction. They appealed to workers everywhere to unite in defence of free speech and the right of public assembly, and to protest against all forms of national intolerance and terrorism. 'If', they added, 'the British working class hesitate now between majority and minority rule, and toy with the idea of dictatorships, Fascist or Communist, they will go to servitude such as they have never suffered.' This manifesto was sent out to all their branches by the National Joint Council, and may be taken as a proof that the trade-union movement in England, whatever its economic policy and aspirations, is not likely to join those Socialists who would sweep away the constitutional rights of citizens and their civil liberties for the purpose of creating a Socialist State. Nevertheless in the autumn of 1933 at Hastings the Labour Party passed a series of resolutions even stronger than those of Leicester, which plainly aimed at the complete overthrow of private capital and the creation of a Socialist State owning and controlling all trade and industry.

The extension of Socialistic ideas since the War has not been confined to the Labour Party. The Liberals, also, influenced partly by the War, which did so much to increase men's faith in the potency of State action, partly by Mr. Lloyd George, who used his private political fund to finance the Land Inquiry and the Yellow Book, included for a time in their official programmes schemes of land reform, industrial reorganization, and unemployment relief works, which would have involved far-reaching measures of State intervention and public expenditure. Mr. J. M. Keynes, then a member of the Liberal Party, wrote about 'the end of *laissez-faire*' (as the Fabian Socialists had done a generation before), and advocated among other things a 'managed currency', loans for public works, State guidance of investment, compulsory publicity of business facts, and finally a general tariff for protection and revenue. Support for these ideas, or some of them, was found (at the Liberal Summer Schools) among groups of young Liberals, who demanded a change from 'pre-war' policies and a 'really constructive' programme. The majority of Liberals, however, remained adverse to State Socialism, preferring to stand by the traditional Gladstonian policy of free

trade, individual enterprise, and public economy. On the last subject, indeed, there has been much division of opinion since the general election of 1931, both among Liberals and Conservatives, some of whom favour more public works for the unemployed even at the expense of a balanced Budget, while others hold that a reduction of taxation would be far better.

Among many Conservatives, the extension of State intervention in industry met with ready acceptance. They remained nominally as much opposed to Socialism as ever; but the protection of industry was one of their own foremost aims, and, as an adjunct to tariffs, they welcomed other methods of controlling imports and home production. Thus, though Socialistic in their nature, such proposals as import quotas, governmental regulation of imports and production, supervision of prices, and even co-ordination and control of transport, have now become part and parcel of Conservative policy. The Agricultural Marketing Act of 1933 is the most Socialistic measure passed in modern times by a British Parliament, and now (in the winter of 1933-4) it is being administered by Major Elliot, the Minister of Agriculture, in a spirit of bureaucratic Socialism.

CHAPTER IV

POLITICAL CONSEQUENCES OF THE WAR IN IRELAND

As the political effects of the War in Ireland were quite different from those which it produced in England, Scotland, and Wales, they require separate treatment, and their importance justifies a detailed narrative. In this case the sequence of events must be grasped in order that the situation may be understood; the chronological is also the logical order.

When Mr. Asquith's Liberal Government declared war on Germany, it determined to postpone putting into force Home Rule for Ireland in order to avert the danger of violent disturbances and to conciliate the Conservative or Unionist Party, which was bitterly opposed to the Home Rule Bill, and was more than half inclined to encourage armed resistance in Ulster in accordance with the watch-word: 'Ulster will fight, and Ulster will be right.'¹ By this perhaps unavoidable breach of faith with his Irish Nationalist allies, Mr. Asquith brought about the downfall of the Irish Home Rule Party, promoted the growth of Sinn Féin and Republicanism, and alienated the population of Southern Ireland, thus starting a train of events which led to the separation of Leinster, Munster, and Connaught from Ulster,² and the creation by treaty of the three provinces into a separate Irish Free State. Had it not been for the War, there is little doubt that Home Rule would have been in existence by 1915, and the history of Ireland—in spite of the Orangemen—might have taken a happier course.

In June 1914, before the clouds of war had gathered, the Liberal Government seemed determined, despite the threatened resistance of Sir Edward Carson's followers in Ulster, supported by Mr. Bonar Law and other prominent Conservative leaders in England, that the Home Rule Bill should be put into operation. Lord Lansdowne, the Conservative leader in the House of Lords, had said on June 15th—'under the new Parliamentary machinery'—i.e. the Parliament Act of 1911—'the steam roller moves forward and the Bill will become law whether we like it or not, at any rate by the end of the

¹ Sir Edward Carson and Mr. F. E. Smith had supported and encouraged the Ulstermen and a number of leading officers in the Army had refused in advance to act against the Orangemen.

² Or, to be exact, from six Ulster counties.

Session'. The Government consented, however, to pass an Amending Bill, permitting any Irish county, if a majority of the electors so desired, to be excluded from the Home Rule area for a period of six years—a proposal which the Nationalists were willing to accept as the price of peace. From July 21st to 24th, 1914, the party leaders met at Buckingham Palace, but failed to reach agreement as to the terms of the Amending Bill. When the War broke out, Mr. Asquith suggested (with general consent) that the discussions should be postponed until after a short recess, during which, it was hoped, agreement might be reached. This hope was not fulfilled, however, and in September 1914 the Government dropped the Amending Bill. They placed the Home Rule Act on the Statute Book; but passed a Suspending Act, which provided that it should not come into operation for twelve months—the belief in a short war was general at the time—‘or if at the expiration of those twelve months the present war has not ended, until such later date (not being later than the end of the present war) as may be fixed by His Majesty by Order in Council’. A verbal undertaking was given by the Prime Minister that the Ulster difficulty would be met, and that the Government ‘would never consent to the coercion of Ulster’.

The Suspending Act also covered the Act for the Disestablishment of the Welsh Church, and that Act duly came into operation after the War. Every one supposed that Home Rule would also then come into operation. At the close of the session on September 18th, 1914, Mr. Crooks, a Labour member, led the House of Commons in singing the National Anthem, after which a member called out ‘God save Ireland’, and Mr. Redmond responded, ‘And God save England too’. At no time were relations between England and Ireland more cordial.

The position at the end of the War exhibited a violent and unhappy contrast. Mr. Asquith was no longer Prime Minister—at the end of 1918 he even lost his seat in Parliament; the Irish Nationalist Party had been almost entirely replaced by the Sinn Féin movement, imbued with bitter hatred of England; and there ensued a period of brutality and bloodshed between the Irish Republican Army and the ‘Black-and-Tans’, a semi-military force organized by Sir Hamar Greenwood, the Chief Secretary for Ireland in Mr. Lloyd George’s Coalition Government.

For this change the War was responsible in three ways. The first and most important cause was the ever-lengthening delay in satisfying Nationalist aspirations, with a consequent growth of impatience, and a development of more extreme demands. Secondly, British statesmanship was inevitably concentrated upon the prosecution of the War with the result that Ireland was neglected; and the careful vigilance and prompt handling necessary in dealing with Irish problems were lacking. Thirdly, England's preoccupation with the War and the military dangers to which she was exposed encouraged the most violent and irreconcilable elements in Ireland to believe that they could gain their ends by force.

Among the unfortunate incidents which arose from these causes were the tactless handling of Irish recruits and Irish regiments at the outset of the War; the executions that followed an abortive outbreak in Dublin at Easter, 1916, which embittered feeling not so much on account of their number (15) as by the long period over which they were spread; and, most notable of all, the unsuccessful attempt in 1918 to apply conscription in Ireland, which turned moderate Sinn Feiners into extremists. This last incident also had the effect of banishing any hope that a settlement might be achieved as a result of the Irish Convention. This body, over which Sir Horace Plunkett presided, consisted of 96 members representative of all parties except the Sinn Feiners, who refused to take part. It sat in Dublin during the second half of 1917.

During the year 1918 the situation grew steadily worse. The 1916 rising had little popular support; but by the middle of 1918 Sinn Fein commanded a majority of the people. At the general election in December 1918, the Nationalist Party disappeared except in a few Ulster constituencies, and in Waterford City, where John Redmond was re-elected. The 73 Sinn Fein members refused to take their seats in the British Parliament, but established the Dail Eireann, and set up a provisional Government, with Mr. Eamonn de Valera as president. In the winter of 1918 murders of policemen took place, and several cases of retaliatory shooting of civilians occurred. In 1919 attempts were made to suppress the Sinn Fein organizations, and organized resistance began. Mr. Asquith and other Liberals advocated Dominion Home Rule, but the Coalition Government scoffed at the proposal, and pursued its policy of arresting and outlawing Sinn Feiners. In 1920 the Government

introduced a Government of Ireland Bill, which, though in some minor matters an advance upon the Act of 1914, was based upon the partition of Ireland, by excluding the six north-eastern counties of Ulster, which were to have a separate Parliament of their own. Sinn Fein, now representing the vast mass of the Irish people, simply ignored the existence of this Bill; and though it passed into law, it had no practical effect upon the position at the time. The only part of it that was ever put into operation was that applying to the six counties; and on June 22nd, 1921, the King opened the Parliament of Northern Ireland, and took the opportunity to make a notable appeal for peace.

Meanwhile, during 1920 and the first half of 1921, matters went from bad to worse. The Sinn Fein movement declared war upon England, and was met by regular forces—which alone cost as much as £15,000,000 in a single year—by the police, and by an auxiliary force of Black-and-Tans, so called because they were dressed partly in the black uniform of police and partly in the khaki of soldiers—an ill-disciplined force whose ‘reprisals’ aroused the indignation of all classes in Ireland and of all but the most partisan supporters of the Coalition Government in England.

Whenever a soldier was shot and whenever police barracks were attacked, a raid would be made in the middle of the night by lorries of ill-disciplined forces, armed with rifles and bombs, and carrying petrol for incendiary purposes. They would then ‘shoot-up’ the place in question, to use the phrase current at the time, breaking into a few cottages and perhaps setting fire to a public building—especially the co-operative creamery if one existed. It was officially admitted that forty-one creameries were burnt in 1920; and Cork, Limerick, Tralee, Fermoy, Tipperary, Balbriggan, Galway, Clare, Mallow, and a number of other towns and villages were ‘shot-up’. The worst case occurred in Cork City, where on December 11th, 1920, in an attack on a lorry, twelve cadets were wounded, one of them fatally. That night 300 buildings, including the City Hall, the Carnegie Library, and the Corn Exchange, were burnt down, and the damage was estimated at £300,000. It was officially explained that a fire had spread from Patrick Street to the City Hall—a distance of 400 yards across a wide river.

Sir Hamar Greenwood, who was Chief Secretary for Ireland during this time, at first denied that reprisals were occurring, and

then when confronted by proofs, attempted to defend them. 'We are succeeding,' he told the House of Commons on November 24th, 1920. 'There is only one question left. Who is for Ireland and the Empire, or who is for the assassin?'

Mr. Lloyd George, who as Prime Minister was responsible for the Government's policy, defended reprisals as a natural, if severe, hitting-back. 'Are you surprised?' he asked at Caernarvon on October 9th, 1920. 'It is essential in the interests of Ireland that that gang should be broken up, and, unless I am mistaken, we shall do it.' *The Times*, referring to this speech on October 11th, 1920, said that Mr. Lloyd George 'had a great opportunity and woefully lost it. . . . He stood forth as an apologist for lawless reprisals'.

In England, the leading statesmen outside the Coalition—notably Mr. Asquith, Sir John Simon, Mr. Henderson, and Lord Cecil—and the leaders of all the Churches, condemned the policy of reprisals in the strongest terms. The Archbishop of Canterbury (Dr. Davidson) said in the House of Lords on February 22nd, 1921: 'You cannot justifiably punish wrong-doing by lawlessly doing the like. Not by calling in the aid of the devil will you cast out devils or punish devilry.'

At last, after several previous attempts at mediation had broken down, and after some preliminary correspondence between Mr. Lloyd George and Mr. de Valera, a truce was declared in July 1921. This was followed by prolonged and difficult negotiations, which ended in the signature of the Anglo-Irish Treaty on December 6th, 1921, and the establishment of the Irish Free State.

Unfortunately, Mr. de Valera repudiated this settlement; but it was ratified by the Sinn Féin members (assembled in Dublin as the Dail Eireann), and repeatedly approved by the people at subsequent elections. Not until ten years later did Mr. de Valera and his followers come into power, and then only as a Minority Government depending upon Labour support. From 1922 to 1932, the pro-Treaty party ruled in Ireland. At first, they had to overcome violent opposition to the Treaty from a section of the Irish Republican Army, which, like Mr. de Valera, objected to the whole settlement, and from others who, though willing to make peace with England, objected to partition—especially as the elections had shown that two of the counties in Northern Ireland contained Nationalist majorities. A period of bitter civil war ensued, during

which Mr. Michael Collins, one of the signatories of the Treaty, and the hero of the Sinn Fein Army during the fighting against England, was killed. Another early loss was that of Mr. Arthur Griffith, the founder of Sinn Fein, who fell ill and died in August 1922.

Within a year, order was restored. The Free State Government, under Mr. W. T. Cosgrave and his colleagues, though possessed of little experience, vindicated the principle of democratic self-government; they brought peace and contentment to the vast majority of the people, and increased the material prosperity of the country. That in the course of time the electorate should return the opposition parties to power was but natural; and the 1932 election, which was produced by a large number of causes, most of them of an economic character, was neither the expression of a vote of censure upon the principles of the previous Government, nor of a desire for a renewal of that strife which had been so much prolonged and increased by the Great War. Unfortunately Mr. de Valera repudiated a debt to Britain. The British National Government retaliated by imposing extra Customs Duties on Irish products, and a tariff war ensued from which throughout the year 1933 the Irish Free State suffered heavy loss. The trade between Ireland and Great Britain has been sadly diminished, and many Irish farmers have been reduced to beggary. Unemployment is rife in Dublin and other Irish towns. At the beginning of 1934, Mr. de Valera seemed to be aiming at complete separation—an Irish Republic with an economic policy of self-sufficiency.

CHAPTER V

THE BRITISH EMPIRE AND INDIA

ALTHOUGH this book is wholly concerned with the consequences of the War to Great Britain—a sufficiently wide subject—it has been necessary to refer more than once to Imperial Conferences and to the constitutional and economic developments of the British Empire, not only because of their intrinsic importance in the post-war world, but also because the actions and reactions of prosperity and adversity, of independence and interdependence in the component parts of the Empire profoundly affect the policy of the British Government, the prosperity of the people, and the course of public opinion. The exclusion of Southern Ireland from the United Kingdom, and its recognition in 1921 as a Free State with Dominion status, including legislative, fiscal, military and monetary independence, has been described in the previous chapter. Those who desire to understand the changed relations of Britain to the Empire will find a brief but able survey in Mr. Ramsay Muir's *Political Consequences of the Great War*.¹

Before the War, as now, the British Empire consisted of Great Britain, the self-governing Dominions, the Empire of India, and the Crown Colonies,² these last being administered by Governors appointed by the Crown, with whom in some cases were (and are) associated elected Assemblies. The self-governing Dominions contributed something to imperial defence, and the cost of the Indian Army was defrayed by India. Colonial or Imperial Conferences were held from time to time, and an Imperial Defence Committee in London kept in touch with the Governments of India and the self-governing Dominions. The British Empire was a loose organization, if it could be called an organization at all. Three members of the British Cabinet—subject on major issues to the Cabinet itself—namely, the Secretary for Foreign Affairs, the Colonial Secretary, and the Secretary for India, were responsible for foreign policy, for the administration of the Crown Colonies, and for the administra-

¹ More especially in chapter vi on 'the changed position of Britain and the British Empire'. (Home University Library Series, Thornton Butterworth, London, 1930.)

² To which might be added Protectorates and (since the War) Mandated Territories.

tion of India. The very imperfections of the organization, its elasticity, and the spirit of freedom which permeated it, help to explain why the cause of Britain was supported with so much enthusiasm in most parts of the Empire. As Mr. Ramsay Muir writes:

‘Because of this laxity of organization, it was widely anticipated that the Empire would fall to pieces at the first threat of war: Germany, in particular, expected that the Dominions would stand aloof, that India would break into revolt, and that the recent annexations in Africa and elsewhere would have to be controlled by substantial forces. Among the most remarkable features of the war were the unanimous and enthusiastic loyalty of almost every part of the Empire, and the magnitude of the sacrifices, in life and in money, which were willingly offered by peoples at the ends of the earth. Canada, New Zealand and Australia enlisted almost their entire manhood. A brief rebellion of the more irreconcilable Boers of South Africa was suppressed by the Boers themselves, and both races in South Africa thereafter played a vigorous part in the conquest of the German colonies, and sent contingents to the trenches in France. In India the political agitation, which had been afoot before the war, was stilled; and forces far greater than India had ever before put into the field saw service in France, in Palestine, in Mesopotamia and in China. Lax and unsystematic as it was, the free structure of the Empire seemed to be justified by the ordeal of war.’

It was not surprising, however, that the magnitude of the sacrifices made by the self-governing Dominions in blood and treasure, and in a smaller degree by India and other parts of the Empire, led to a more general desire for a share in the control of Imperial policy. It was felt in all the self-governing Dominions that they must not again be involved in a European war without previous consultation, and that they could no longer leave the control of their foreign relations to the British Government. Already during the War representative statesmen from the self-governing Dominions were made members of the War Cabinet. At the Peace Conference, Dominion and Indian Delegates took part in a British Empire Delegation, and signed the Peace Treaty. In the League of Nations, British India, Canada, Australia, South Africa, New Zealand, and the Irish Free State, are separate members, each with its own vote. They possess, and exercise in some cases, the right of appointing their own diplomatic or trade representative in foreign capitals, and they have declined to share with Great Britain the commitments (involving the possibility of war) of the Locarno Pact.

Thus, in one sense, the War has resulted in a loosening of the political ties which bound the nations of the British Commonwealth together. The advance of self-government in India, Ceylon, and some of the Crown Colonies, has also been proceeding apace. On the other hand, the work of Imperial Conferences has become more important. Imperial preferences were extended or added to the fiscal systems of Great Britain and of all the constituent members of the Empire at the Ottawa Conference of 1932. In some quarters it was hoped that this Conference would mark a substantial step towards the ideal of Empire Free Trade, but unfortunately the self-governing Dominions and India were far more ready to raise their already high protective tariffs against foreign countries than to lower them in favour of Great Britain, though they demanded and obtained for many of their own products a free market in the mother country. After a year's experience of the new protective and preferential tariff, which was completed after the Conference at Ottawa, it may be said that its tendency has been to reduce the total volume of British overseas trade, and to divert some portion of it from foreign countries to members of the Empire.

Among the financial consequences of the War, it may be mentioned that the much reduced capital fund of British savings for overseas investment has also been diverted from foreign countries to the Empire, partly because bitter experience of insolvency and default in South America and Europe, including some League of Nations' loans, made it next to impossible to float foreign loans in London, while the Colonies and India continued in practically all cases to honour their obligations, and partly because, in the recent critical period of finance, the British Government deliberately imposed restrictions on foreign loans, while assisting India and the self-governing Dominions to convert their War Debts on favourable terms in London.

To these preliminary observations it may be added that the sense of insecurity caused by the War, and by the alarming developments of aircraft and submarines, has tended to increase the feeling of the British race at home and overseas that in the armed discord of the post-war world they must stand together, not only in support of peace policies in the League of Nations, but also for defence against possible aggression.

Although the financial and economic distress caused by the War

and the growth of economic nationalism in the shape of tariffs and other restrictions by the self-governing Dominions have injured British exports and shipping, the changes caused by the War in the Empire have been most marked and their results most serious in the case of British India. This subject therefore calls for special treatment.¹

Any one acquainted with the recent history of British India might have anticipated that the Great War would have produced outbursts of hostility to British rule, as it did in Ireland. But the Indian disturbances did not occur at once; and when they began, they were neither so general, nor so violent, nor so dangerous to authority, as in Southern Ireland, where proximity to England and to the main seat of the War in Belgium and France, combined with an ever-present fear of conscription, operated powerfully to stir up the old embers of rebellion, and to revive religious and racial feuds, which might perhaps have been buried by a prompt and generous measure of Home Rule. In India, with its diversity of races, languages, creeds and castes, nationalism in the proper sense of the word never has existed and never can exist. But political discontent and a desire to shake off British rule were growing rapidly before the War, especially in the small but influential class of educated Hindus. Mohammedan recollections of a former supremacy and the conflicting desire of the Brahmins for ascendancy had never faded away, even after the suppression of the Indian Mutiny and the reforms of British Administration.

A friend of mine, who held high and responsible positions in the Indian Civil Service during and after the War, writes:

‘The unexpected quietude with which India accepted the War was the most marked feature of the opening year. After that, an impression gradually gained ground that the British were not doing too well. Then the terrible loss of life, and the economic waste and confusion during the War and following years, made thinking Indians realize that Western leadership was far from perfection. These factors seriously affected our prestige; and after the War, the more aggressive political elements saw that England was war weary and its government squeezable.

‘The quietude and general goodwill towards England’s cause had behind it in some quarters an expectation of large political concessions.

¹ In the volume on *War Government in the Dominions*, contributed to this Series by Dr. A. B. Keith, very little is said about British India.

‘Going further back, the Russo-Japanese War gave the first shock to Western prestige; but after the occupation of Korea and Formosa, and the treatment of Indian students in Japan, sympathy with that country was converted into deep distrust.

‘Stories of German atrocities, though widely credited and to some extent at first helpful to the British cause, went both ways in the long run. They were an indictment of the white men of the West, which did not enhance oriental respect for the Christian civilization of Europe.’

Though they had long enjoyed much more liberty of speech, writing, and action than is now (1934) possessed by Italians or Germans or Russians, the peoples of India were far from qualified by education or experience for democratic self-government. The Morley-Minto reforms had only been inaugurated a few years before. Viscount Morley, whom I saw constantly during his period of office as Secretary of India and afterwards, always held that for the working out of his reforms a long period was necessary during which no large constitutional changes should be made. He was convinced that India was not ripe for parliamentary institutions like those of Britain or the self-governing Dominions. He rejected as entirely false the idea that the peoples of India ever could constitute a nation. In this connexion I may mention that the late Lord Lansdowne, one of the ablest and most discerning of Indian Viceroy, once remarked to me that the religious, racial, and linguistic differences among the peoples of India are far greater than those of Europe. Consequently, it would be easier to constitute Europe than India into a self-governing political unit or nation. Unhappily for both countries the march of events in both Great Britain and India, and above all, the unlucky elevation of a most unsuitable Minister to the Indian Secretaryship in the person of the late Edwin Montagu, threw the Constitution of British India into the melting-pot at the very worst moment that could have been chosen for a change in the system of government.

India, it must be remembered, has long been dependent on British rulers for its security from invasion, for a system of impartial justice and efficient police, for a fiscal system which was fair to the cultivators of the soil who form an immense majority of the people, and also for most of the capital required to finance railways, irrigation schemes and other internal needs. Great Britain, in its turn, owed a good deal of its pre-war prosperity and trade to the connexion with India and to the flourishing commerce which had grown

from a free interchange of British manufactures with jute, tea, cotton, wheat, and other staple products of India. All these economic interests, which united and enriched both countries, have been jeopardized by the policy of economic nationalism pursued since the War by the British administration in India under the inspiration mainly of the Bombay millowners, whose control over Congress is so remarkable and significant. The gradual change in India's fiscal policy since the War from Free Trade to high Protection is plainly at the expense of the great masses of the people who are peasants. The new protective system is for the sole benefit of manufacturers. It raises the prices of the tools, clothing, &c., which Indian cultivators of the soil have to buy, and tends to depress and cheapen the surplus products such as wheat, tea, cotton, and jute which they have to sell in exchange. That Lancashire cotton operatives suffer as well as the Indian ryots seems a poor argument for the policy. We may now return to trace the events which brought about this change of fiscal policy along with a revolution in the system of government.

In August and September 1914, after Great Britain had declared war on Germany, writes Sir Reginald Craddock, a hush fell over political agitation in India. 'The princes and chiefs, the great landowners and the commercial magnates, vied together with offers of service and loyal demonstration.' The masses were but dimly conscious of what was going on, but there were wild rumours and scares:

'Planets were mistaken for aeroplanes carrying lights; German warships were reported to have been seen up the Jumna; the Marwari traders in the great sea ports fled back to their houses in Rajputana; and the Lascars for a time, but only for a short time, deserted the sea. The raids of the *Emden* in the Bay of Bengal, coupled with the brief bombardment of Madras, excited much alarm; but when that danger disappeared, the excitement began to subside. . . . The consequences of the War were to be felt at a much later stage.'

There was a truce to political controversy and controversial legislation; indeed eight months elapsed before the British D.O.R.A. found an Indian counterpart in the Defence of India Act.¹

In 1916, when Lord Chelmsford succeeded Lord Hardinge, a good many conspiracies were on foot in various parts of British India.

¹ See *The Dilemma in India*, chapter xiv, by Sir Reginald Craddock, who held high posts in the Indian Civil Service before, during, and after the War.

There were the Sikh mutineers, the Bengal anarchists, the Dacoits, and the Pan-Islamic plotters who endeavoured to stir up the Indian Mohammedans to join in a jihad or religious war on behalf of Turkey. Mrs. Besant started a campaign for Home Rule, and in 1917 her newspaper, *New India*, became so violent that the Government of Madras ordered her to be interned. In 1917 came the appointment of the late Mr. Edwin Montagu, and the announcement in Parliament that he was about to visit India. The terms of the announcement (August 20th, 1917) stated that 'the policy of His Majesty's Government, with which the Government of India are in complete accord, is that of the increasing association of Indians in every branch of the administration, and the gradual development of self-governing institutions with a view to the progressive realization of responsible government in India as an integral part of the British Empire, and that substantial steps be taken in that direction'.

After this the fat was in the fire, and thus encouraged, an increasing number of extremists began to agitate and clamour for a self-governing and independent India. What was meant by 'responsible government' is still disputed. Curiously enough the phrase was inserted by Lord Curzon, to whom, with Mr. Montagu, the framing of the Resolution was entrusted by Mr. Lloyd George's Coalition Cabinet.

Meanwhile the vast majority of the peoples of India had been almost unaware of the War, until the shrinkage of shipping, the lack of British manufactured goods, the shortage of silver currency, the scarcity of imported commodities, and a rapid rise of prices began to affect their daily life and subsistence.

After the Armistice an immediate fall of prices was hoped for and expected, but they went on mounting higher, and in the midst of this dearth a terrible epidemic of influenza swept over the whole country. To quote Craddock's words, 'many villages were desolated; some lost twenty-five per cent. of their population; hundreds of thousands of people were debilitated and enfeebled for work'. Finally, to crown all these troubles, the years 1918-19 brought crop failure and scarcity and still higher prices of food. 'Rumours were diligently spread around that the British were going to withdraw, and that the scarcity of silver was due to their packing up all the silver in the country to carry off with them.' All misfortunes were

of course converted into grievances against the Government by most of the native press. In these circumstances political agitators and conspirators found plenty of explosive material. Unrest spread rapidly. An Afghan invasion was repulsed. Sporadic risings and riots were put down, in some cases, as at Amritsar, with excessive severity. A powerful apostle or saint, Mahatma Gandhi, came forward to advocate a general boycott of British goods and a strike against taxes in the form of 'non-violent non-co-operation' as a means of destroying the system of government and putting an end to Anglo-Indian business. The Mopla rebellion of 1920 was a terrible affair. In 1921 Lord Chelmsford was succeeded by Lord Reading, who did much to restore order and security. But under the Viceroyalty of Lord Irwin, Gandhi and other extremists obtained a maximum of influence; and the Diarchy (as the new system of government which had emerged from the Montagu-Chelmsford Report was called) became so unworkable that a Commission was sent out to India to study conditions and recommend a new Constitution.¹

It would be quite beyond the scope of this chapter to treat of Sir John Simon's Report, or to describe the new project of a Federal Constitution, which has been in the making, and is now—in the spring of 1934—under discussion. But even a brief survey would be incomplete without some further reference to the rise of prices and the economic troubles that aggravated political discontent as the War went on. The Indian currency is an obscure and complicated subject. Since the closing of the Indian mints to the free coinage of silver in 1893, the Indian rupee had been maintained at an artificially high rate in exchange for the sovereign. After the outbreak of the War this exchange rate had to be raised, until at last, in December 1919, it was valued at twenty-eight pence in sterling. Then, on the advice of a Committee, the Indian rupee was divorced from sterling and linked to gold at the rate of ten rupees to the gold sovereign. A disaster followed; for the gold value of silver fell rapidly. The exchange broke, involving heavy losses to the Indian Budget. At last, in September 1931 (after various changes which need not be recorded), India, following Britain, substituted

¹ For the similar movements against British rule in Burma and Ceylon, see Craddock's *Dilemma in India*, pp. 115-27 and 237-41. The Mopla rebellion was an indirect result of the war with Turkey, being an outbreak of Mohammedan fanatics (of Arab descent) in the south.

paper sterling for gold, and the change relieved the Indian Budget by bringing out large hoards of gold, which were exported and so helped to redress an unfavourable balance of trade.

A description of the crisis created by the rise in prices towards the end of the War, contributed by the friend whom I have already quoted, deserves inclusion here:

‘Owing to the fall in imports, money paid for cotton, jute, &c. at vastly increased prices did not come back into commercial sight, and in 1918, during Montagu’s visit, we were faced with inconvertibility. Montagu in a fright despatched an agonized telegram to the British Cabinet, which produced American dollars only just in time to save a stoppage of manufactures and transport. The money crisis was precipitated by savings banks withdrawals and rupee hoarding. Every silver coin disappeared from the Simla bazaar in 24 hours. The appalling weakness of the Government in allowing the army to run away with the Budget in quest of military efficiency after the War must be attributed to war psychology. The D.M.O., a junior general, used to hand out cash at discretion to all military spending departments, except munitions. This rendered necessary among other things a reform of the income tax; and my own belief is that its application to traders and money-lenders had a lot to do with the sudden switch over of these classes to Congress. The rise in prices also necessitated a wholesale revision of civil salaries and made it impossible to expand beneficial services at the rate hoped for under the new constitution.

‘The boom was madder in Bombay than anywhere, but led to little real diversification or strengthening of the industrial equipment of India. When the slump came in 1922, British money power and policy were blamed without any show of reason. The large sums of money raised on internal loans astonished even the experts. Opportunities for other investment were lessened early in the War; but the successful floating of an internal loan of 50 crores (5 crores were the Finance Minister’s pre-war ideal) shows how certainty appealed to people who had previously been used to a precarious high interest. A real desire to help in the War increased these investments.

‘I append from memory an instance of cotton finance for the Nagpur area. Receipts in a pre-war year by cotton growers—7-11 crores according to price and season, of which there came back into commercial sight, by banks 2 crores, taxes and post office $1\frac{1}{2}$ crores, carried in specie by train $\frac{1}{2}$ crore, balance spent on Bombay and overseas goods.

‘1916-18, price of cotton 18-20 crores. Banks, taxes, &c. the same as before, or perhaps a crore more. Carriage of specie was forbidden. Bombay and other outside goods, now far higher in price, were less available and were simply not bought. Result a specie withdrawal from commercial sight of, say, 6-8 crores a year. Much was done to popularize notes in the cotton- and jute-growing areas, but by no means enough to make the difference.

‘Apart from the jute slump of September 1914, which gave the Scotchmen¹ the most terrific stacks of jute you ever saw in your life at rock-bottom prices, the cultivator got his fair share of the increased prices. I don’t think the controls we imposed on every form of production hurt the farmer; they certainly left the trader and manufacturer enormous profits, which our income-tax organization was then too weak to intercept. Railway congestion and lack of renewals caused bad circulation of foodstuffs, and was accentuated by exports to Europe, Iraq, and Africa. This was met by food control, and there was no question of starvation. Industrial wages rose and there was a remarkable but only temporary awakening of trade unionism. But some good results followed; for the International Labour Office Conventions led to legislation which established workmens’ compensation, shorter hours, welfare work, &c.

‘The War showed clearly that organized industry had no real roots in Indian soil. All machinery and most renewal requirements and consumable stores were imported. If the War had gone on much longer, the factories and transport machinery would have stopped for lack of plant. An agitation was started for the production of indigenous materials to make India industrially self-supporting. Export of raw material was stigmatized by politicians as economic helotry. But India failed to respond, and so suffered less in the slump.’

Nevertheless this movement and the pressing need for more revenue helped to promote the change of fiscal policy which has already been described. This new Protection was loudly demanded by Congress and the press under the inspiration of generous financial support from the millowners, who have reaped a rich harvest at the expense of Indian consumers and cultivators. The boycott of British goods had the same purpose and results. After 1928, when the slump in agricultural prices produced world-wide depression and bankruptcy, this high protective tariff added to the distress of Indian landowners and cultivators, but the millowner’s control over Congress and Government was much too strong to be shaken. Tariff-making in India takes no account of the interests of agriculture, which, under the Diarchy, has no influence over Congress, the press, or the Government. If further we take into account the fact that agriculture is at least twenty times as important to India as all its mines and factories put together, we can hardly avoid the conclusion that the country as a whole is much worse off than before the War.

¹ The jute industry of India is in the hands of Scots, who introduced it from Dundee.

BOOK II

EFFECTS OF THE WAR ON SOCIETY AND OPINION IN GREAT BRITAIN

CHAPTER I

SOCIAL AND MORAL CONSEQUENCES

EVERY great war is accompanied inevitably by social and moral disorders, as well as by economic troubles. Their extent, intensity, and duration, as well as their political effects, depend partly upon the character and length of the struggles, partly upon the traditions, structure, and complexity of the nations involved, partly upon the question whether the conflict has terminated in victory or defeat. After the Great War the defeated countries were prostrated by famine, bankruptcy, and a series of revolutions. In the victorious countries, excepting Italy, the framework of government remained unaltered, though financial difficulties, along with social and economic disturbances, accumulated.

In other chapters we discuss the economic and political consequences of the War to Great Britain, as well as the growth of Pacifism and Socialism. In this chapter I shall try to indicate some of the social, moral, and religious changes which may be attributed, at least in part, to the Great War. I am well aware that here we shall be moving in a region of uncertainty where only doubtful conclusions can be reached. Sociology, at best, hardly deserves to be called a science. Moral changes and religious movements cannot be defined or described in terms of logic. Variations in the modes of life, in the outlook on life, in conventions and fashions, are often inexplicable, and they can hardly ever be related to any single cause, or even to any one chain of events. Perhaps some future philosopher, with more material at his disposal and an encyclopaedic grasp of the subject, may be able to present a fair picture of the changes in English society following upon the War, and to disentangle from a complicated web of circumstances and ideas the new threads of thought and emotion which issued from the experiences of war in this country. For myself, rather than attempt to dogmatize or to express opinions which can only be tentative, I have preferred to rely mainly upon a number of correspondents

in quite different walks of life and with varied knowledge of different classes of society to whom I appealed for aid. It was not, I felt, a question of research, but of opinion. In such a case, the opinions of fair-minded people are well worth recording and comparing. In what follows their views will appear, with some comments of my own, which may perhaps help others to form a balanced judgement.

I will begin with some notes sent me in March last year (1933) by my friend, Mr. John Bright Clark, a grandson of the great John Bright, and one of the best employers of labour in the country. Mr. Clark, whose sudden death shortly after the date of his letter to me was felt in that part of Somersetshire as a public calamity, was the head of an old and very successful boot and shoe factory in the town of Street, close to Glastonbury. Mr. Clark had held, for two years, the office of president of the Boot and Shoe Manufacturers' Federation, and was still, when he wrote to me, an active member of the Executive. As he was also a man of wide political and philanthropic interests, as well as a cautious, exact, and sympathetic observer of labour conditions, I feel that his notes have great value, though he observed characteristically that they were 'based on a very limited range of observation, made for the most part in a rather out-of-the-way corner'. 'Further', he added, 'in noting the differences between present conditions and pre-war conditions, it seems to me quite impossible to dogmatize at all as to how far the differences have arisen from the War, and how far they are due to other causes which would have brought about the same effects in any case.' I now give Mr. J. B. Clark's notes verbatim.

'As to business, I think generally there is more initiative—not so much of a tendency to keep in old ruts.

'There is also less secrecy; that is to say, there is more general research, and more readiness among people in business to be friendly with, and exchange information with, others who may be their competitors, rather than being afraid of them and keeping at a distance.

'In our Trade, the Shoe Manufacturers' Federation has taken a much larger part since the war, and though it is far from being a satisfactory or complete organization controlling the trade, it is filling a useful place.

'Much the same applies to the Operatives Union. There is more general recognition of the Union; it has better standing, and although, as long ago as the end of the last century, the two parties had come together and made an Agreement which has prevented any general dispute since, I think the tendency has been accentuated since the war, and in spite of natural

differences and misunderstandings from time to time, there is a pretty good feeling.

‘Hours of work are less.

‘Wages are much higher, and, taken on the basis of real wages, are distinctly higher.

‘The minimum Daywork Wages for men in 1910, according to a Table which I have before me, ranged from 26s. to 30s. per week, varying with different departments and different centres. In an agreement dated May 5th, 1914, an increase of 1s. per week on all existing minimum rates was provided for, to take effect Jan. 1st, 1915, and a further 1s. in Dec. 1915.

‘The minimum rate at present is 54s. subject to fluctuation on account of Cost of Living.

‘The minimum Daywork Rate for women 20 years of age and over at the same time was fixed at 18s. per week. To-day it is 33s. per week.

‘A very large proportion of Piecework obtains, and I should imagine that a decided majority of the operatives in the Trade are on Piecework on statements which are framed to give the average operative an earning capacity 25 per cent. over the minimum,¹ and specially skilled operatives more. Piecework earnings are quite substantial, and I should imagine that through Piecework, the increase on Daywork Rates would show. On the other hand it must be borne in mind that, owing to the shortness of work which has obtained lately, the actual money taken has not increased in the same proportion.

‘There is a Holiday Levy, contributed half by the employer and half by the work people, which provides money for the principal holidays of the year. There is some difficulty about this, however, as some Firms will not observe it; the Unions are not strong enough to make them, and those Firms who do are complaining of the competition of those who do not, thereby saving about $\frac{1}{2}d.$ a pair—in some cases probably up to 1d.—on the cost of production.

‘One great change is the increased employment of women. As far as my memory serves me, about 40 years ago we were employing no women other than those in two departments which are recognized as women’s work. Outside these departments, all clerical and administrative, warehouse and general work was done by men. The introduction of women to do definite men’s operations was a temporary measure during the war, and has practically ceased. We do, however, employ a very large number of women and girls as typists, clerks, and on warehouse work and many other occupations about the factory, where they are most useful. This had already taken effect to a considerable extent before the war, but has been very greatly increased since. It is difficult to say to what extent the war is a cause, but I think no doubt it has accelerated it.

‘Other changes noticeable with us are general retirement at 65 instead of staying on in many cases to 70 or over. How far this is generally done, and how far it is peculiar to us owing to the fact that we have been able to do something in the way of a pension scheme, I do not know.

¹ In practice it works out higher than this.

‘At the other end, work is not being started so early, and we are employing a much smaller number of boys under 20; this is partly because there is an almost total cessation of men retiring voluntarily. Before the war, men would frequently leave to take up other jobs, or to emigrate to U.S.A. or the Dominions, and many used to go over into South Wales to work. Now these outlets are stopped, and jobs are so difficult to find that, if a man has one, he is very reluctant to give it up. For this reason, and also owing to slackness of business, it is not possible to take on so many boys.

‘We find the general standard of education and intelligence improved, increased aptitude with machinery, a more intelligent interest taken in work, and the general outlook more reasonable. Here, again, how far this may be due to special local educational arrangements which have been made, and how far it may be a general tendency, I cannot say. There has been a good deal done here in the way of education. For instance, the Workers’ Education Association has greatly increased its activity since the war and is well supported, and we run a part-time Day Continuation School for our employees under the age of 16 which no doubt is having an extremely good effect.

‘It is suggested to me that there is more social equality and intercourse between all grades in the factory. The amenities have been improved in such respects as heating, ventilation, cleaning, and the general up-keep.

‘We publish a Monthly News Sheet which is supplied to all the employees and ex-employees, and we find it useful in arousing interest; we also have a monthly meeting of a Factory Council representative of the Works, which does not touch the wages or other Trade Union business, but discusses business matters generally. This affords an opportunity for our giving the employees information as to the general policy of the business without revealing any actual secrets, and enables them to put their views before us.

‘I am posting you a copy of the last Number of our News Sheet. You will see it mentioned in this that we are running a Savings’ Bank, which is a very satisfactory institution, the deposits standing at about £28,000. The money is all invested—except a small balance in hand—in Trustee Securities.

‘By means of the Factory Council and the News Sheet, and in other ways, we are able to keep in closer touch with our people, and undoubtedly secure useful co-operation.

‘Coming to more general things, it seems to me that the younger generation are much more independent, and take much more their own line, without reference to the preceding generation than was the case when I was growing up. At the same time, as far as I know them, although there is perhaps rather more inclination to pleasure, yet I find them very keen, straight, and public spirited, and with their sympathies and ideals in the right place.

‘The enormous changes that have taken place in life through the introduction of the motor-car and the motor-cycle, and the development of road

transport are so obvious that I do not need to refer to them, nor similarly to the Cinema. There is, of course, far more moving about, far more seeing of different places. All this has, I think, entirely changed life and the aspect of the country.

‘The extension of the Franchise, and especially to women, is a great change. One of my friends, who is a very keen business man and observant, remarked on the increased general interest in, and knowledge of, world affairs and discoveries of Science, including Technology, Art, Music, and Literature; but of the decline of interest or fervour in Party Politics. In conversation with the local barber one morning, he, on the other hand, remarked—without my touching on that point—on the greatly increased interest the young men are taking in politics and affairs. Possibly, however, the distinction was as to Party, and the two views may not have been so diverse as would appear. It seems, however, rather to illustrate how easy it is to get different opinions. I discussed some points with the barber, and he said that people were better dressed and more particular about their appearance, but did not get such good quality things; also that men who before the war were satisfied to be shaved once a week had learnt to use Safety Razors and shaved every day.

‘In Local Government as I see it on the County Council, there is an enormous change in the increased duties to be carried out. The time that a County Councillor has to give to different committees is greatly increased. With this the expenditure had also gone up very heavily. One may instance Mental Deficiency, which is a new department; greatly increased branches of Public Health work; expanding of the public work on roads, bridges, &c. The Agricultural Committee has also much expanded. More Water and Sewage schemes are being put in hand. Education, though developments are held up for the moment, has gone ahead. Housing is another aspect, which, however, applies more to District Councils than to County Councils.

‘I would conclude with reference to the great decrease in drinking habits among ordinary people and the working class, though I gather that in certain society circles with which I am not personally familiar, and especially a certain class of young men and women, the Cocktail habit is developing with mischievous results. The decrease in drinking is due, I think, to various causes:

‘The long agitation and propaganda carried on by Temperance Societies.

‘The increased cost of drink and reduced spending power of the public.

‘The curtailment of drinking hours with the break in the middle of the day, which has been, I think, of enormous advantage in stopping all day soaking.

‘Resort to the Cinema instead of to the Public House.

‘General increase of education, self-respect, and opportunity for other sorts of recreation.’

No doubt the friendly conditions prevailing between employers and employed in the Clark factories at Street, and the interest

taken in the welfare of their workers by the firm, make it a very favourable example of life at the present day in a factory town. Nor has the boot and shoe trade suffered from the terrible post-war depression which has afflicted the cotton industry of Lancashire, and other staple trades such as iron and steel, shipbuilding and engineering.

Another manufacturing friend, who controls several undertakings in the Midlands and the North, wrote (in answer to some questions which I addressed to him) that, in his opinion, 'the people as a whole—apart from unemployment—have a much higher standard of living and seem to be better off'. Even the middle classes in the towns with which he is acquainted do not seem to be poorer. They spend more. Things which were luxuries in 1913 have become necessities. 'Get ten people together, who bitterly complain of the times, and ask if they spend more or less than in 1913. I think eight of them would admit to a higher standard of living.' In recent years, he thinks, the profits of shopkeepers and of the distributing trades have more than doubled. During the long fall in prices the shopkeepers kept far smaller stocks. 'They now compel the manufacturers to carry stocks, and 'phone for what they want.' Manufacturers, on the other hand, are now linked together for protection; they 'stand in' with one another to maintain prices. Hours of labour, including those of clerks and many professional people, are mostly 25 per cent. shorter than before the War. Many more of the small shopkeepers now keep a balance at the bank. My friend thinks that improvements in machinery have in some cases altered industrial life even more than the War. Religion, he says, has a weaker hold on the people, partly because of the militant attitude of the Church during the War, partly because cinemas, motoring, and the extension of Sunday pastimes have provided counter-attractions to church and chapel going which have proved irresistible, especially to young folk.

Unfortunately, he adds, the post-war period has been an anxious one for all employers, owing to falling prices and the vast addition to the burden of taxation.¹

¹ This burden falls on the whole community, and I am inclined to think my friend the manufacturer above quoted has not made sufficient allowance for this, or for the heavy losses in trade, shipping, and investments which have hit the well-to-do classes so hard. An enormous number of millowners and country squires have been compelled by these causes to sell their homes and estates.

I now turn to a series of notes sent me by a civil servant, who held a high position in one of the Local Government and Public Health Departments during the War and for some years afterwards, since when he has had some active experience of the City.

‘The War’, he writes, ‘accustomed us to large units and figures, and reversed previous ideas of financial limitations. As a result both the Civil Service and business were organized on a big scale. New Departments were formed, the Treasury trebled itself, and set up in all the chief offices Accountants General, Directors of Establishment, &c., while business went in for rationalization, and huge concerns grew up modelled to some extent on Government Offices.

‘The movement was helped by the desire to provide work, not only for ex-Service men, but for all the women who had entered industry during the War. As the War went on places were found in Government Offices for men who had been disabled, and many of these got themselves on to the establishment and could not be got rid of without pensions, apart from the agitation in favour of ex-Service men.

‘The final emancipation of women and their invasion of the service, the professions and industry was largely due to the War, in which so many women proved themselves satisfactory substitutes for the men who joined the ranks. The claim of women to continue in these jobs is one of the chief causes of the unemployment which began to increase so rapidly when financial limitations asserted themselves.

‘I think the Civil Service has gained in efficiency, but this is partly due to the elimination of senior members who entered by nomination before the examination test was instituted about 1884. Nevertheless the wide contacts which the Service made during the War with men from other walks of life, and with facts and situations which required prompt decision and rapid action divested it of some of its traditional red tape and circumlocution. And there have been one or two shocks to the doctrine of security of tenure till the age of 65.

‘Its power has increased horizontally by the creation of new Departments dealing with fresh duties thrust on it by legislation; that is, it has got its fingers into still more pies. Its power also increases vertically by Acts which leave details—sometimes important—to be settled by Order in Council or Departmental regulations, many of which slip through in spite of the vigilance of Parliament. Civil Servants are apt to think that because they are trained to see what is the right thing to do and to do it, the more administration is transferred to them from politicians subject to the influence of votes the better. They have gained in prestige through the increase in the salaries of Secretaries of Departments to £3,000–£3,500, the institution of the Cabinet Secretariat, &c.; this and the coming of Labour Governments has brought them somewhat more into the inner councils than before.

‘As to morals and religion, I should say the post-War generation is

more natural, laxer in morals and freer in thought: the War made many people wonder what was the use of religion and dealt some shrewd blows to Sunday observance. Possibly increased contact with the Continent has extended Sunday games and amusements, and divested us of some of our British 'hypoerisy', which I always thought was not so much a claim that Englishmen did not sin as a readiness to repress by law or convention the doing of things which in other countries are openly practised or tolerated.

'Class distinctions, I should say, are much more blurred; the working classes much better off and better informed—the elimination of illiterates is due to the Education Act of 1871, and its full effect happens to coincide with the War—the upper classes are poorer, and perhaps the upper middle—professions, &c., while lower middle—shopkeepers, &c.—are perhaps slightly better off.

'The system of government has altered in some respects for the worse, but not I expect from the War—the spread of democracy has introduced the professional politician and ousted the people with no axes to grind, and though there is but little corruption, there is less scrupulousness and more opportunism—less principle.'

Turning from the civil service point of view to that of the universities, I have a letter from a woman who took high honours at Cambridge, and has had much experience as a teacher and lecturer in one of the provincial universities. She has also many outside interests, as will appear from her observations.

'In many cases,' she begins, 'it is extremely hard to distinguish between the effects of the War as such and the natural development of processes which were at work before the War. For example, the standard of living was rising steadily before the War. Education, public health, and other social services were extending. Motoring, wireless, aviation, were all developing. More and more women were entering the professions. Naturally it is very hard to disentangle the normal process of development from that which is due to the War.

'I will only discuss three divisions of the population, about two of which I have fairly accurate knowledge.

1. *The University Students.*

'At the provincial universities these are mainly drawn from the secondary schools of the town and surrounding neighbourhood, and from schools in districts further off, where there is no local university, e.g. Cornwall, Norfolk, &c. Most of them belong to the upper working and lower middle class, children of skilled workmen, small shopkeepers and tradesmen, &c., with a sprinkling from the professional and upper business classes and a few from very poor homes. On the whole their means are very small, and their parents are making great sacrifices to send them to the

University. On the "Arts" side a large majority are intending teachers, partly supported by Board of Education grants. Many, particularly those who have to travel considerable distances daily, are mere attenders at lectures and do not take any real part in the general life of the university. Those who do seem to me to have a much greater interest in general problems of the day than the students of 8 or 10 years ago, whose chief recreation seemed to be dancing and flirting.

'Modern literature, modern drama, new developments in film production are all closely followed and discussed by the set called "high brow" by some. Others, particularly the History and Commerce students, are eager to hear expositions of the political and economic conditions in England, Europe, or the East, not only attending "meetings" arranged by the university, e.g. Sir Arthur Salter's lectures, but inviting speakers to their own Student Societies.

'There are societies representing the political parties, but I do not think the majority of students have definitely adopted any allegiance, though many are more or less Labour in sympathy. The League of Nations and Societies for friendship with students of foreign nationalities are all supported by groups which, I fancy, often merge into the Student Christian movement, a body which is very energetic, though I am not sure how large its numbers are; and at present sympathies are rather divided between those who wish for social and international reform and those ("Oxford" groups) who lay stress on individual religious experience.

'The general attitude of modern students is that the elder generation—their teachers, religious leaders, and politicians, though no doubt well-intentioned, are "back numbers" and cannot appreciate modern literature, art, morality, or social movements.

'They have the natural interest of the young in reading "daring" books and they often utter daring sentiments, but I think they are much less "daring" in actual conduct. I was discussing this with the Head of a large Young Women's Christian Association Hostel in London, which caters for students, clerks, &c., and she said her girls were "very independent, very free in speech, but on the whole very straight".

'Many students come from homes where a father, a brother, or a sister has been long unemployed, and the difficulty of getting jobs when they leave the University, no doubt, tends to foster discontent and create socialism.

2. *The Poorer Professional Classes* (chiefly teachers, Elementary, Secondary, University).

'This class (or classes) is perhaps the one which is finding it most difficult to maintain its standards of living in face of present conditions,¹ particularly where there is a family of children to bring up, and it is among them that "birth control" has, I think, made most converts, not always for purely selfish reasons. This is unfortunate, for they are on the whole of

¹ Teachers in elementary schools, however, are much better paid than they were before the War.

good physical and intellectual type, and a valuable element in the population.

'Illness, and the consequent bills, generally has a disastrous result on the balance between income and expenditure. Savings are usually represented by contributions to insurance and pension schemes. In this class a very heavy strain falls on the wife, and in the last two or three years I have known several sad instances of physical or mental breakdown.

3. *Working People.*

'There are almost as many classes among the weekly wage-earners as in the grades above them; my remarks mainly apply to the uppermost stratum with a husband who is, or until lately has been, in regular employment, and perhaps a son or daughter also earning. They have often suffered from the housing shortage, but *when they can get it*, can afford a three-bedroom house with bath and garden on a new housing estate, or an older house with fewer amenities but perhaps more spacious rooms and nearer town enjoyments.

'Husband and wife perhaps take a week's holiday together in the year, often going by motor-bus "to see the country"; the children go to camps organized by their clubs, Sunday schools, &c. They probably have a wireless, built up by one of the sons, and a gramophone; the boys have cycles, possibly motor-cycles, and get opportunities for cricket and tennis at these clubs. Boys and girls are both well dressed. Up to 18 or so they often pay over all their wages to the mother, who feeds them, buys their clothes and gives them pocket money. She may "oblige" (i.e. go out charing) two or three mornings a week to get money for various extras in the way of clothing and fares for holidays. After the last child has left school and begun to earn, a family like this may be quite well off, provided that unemployment or illness does not overthrow it all.

'From this type there are various shades of descent to the slum proper, populated by the feeble, the mentally weak and the semi-criminal.

'As one would gather from Election statistics, there are plenty of working-class Conservatives, and in the Midlands, many Protectionists; but I do not think the workers are bellicose, though they are mostly very ignorant of politics and world-affairs, reading little but racing and football news and a sensational Sunday paper. It was last year quite easy to collect working-class signatures to the Women's International League disarmament petition, and the signatories were by no means all "Labour". Communists are noisy, but not, I think, strong.'

Meanwhile the atmosphere of rural England has undergone striking changes. Many labourers were killed and wounded, and agriculture suffered from this cause. Attempts during the War to grow more food crops on unsuitable land were failures. The beet-sugar subsidy has proved very expensive to the tax-payer. Since the advent of Protection, the English farmer has suffered owing to

colonial competition, which has kept down the prices of most of his produce. Motoring has brought many visitors to the villages, and public-houses in many places have been improved. Village life has been enlivened by the motor-bus, the motor-cycle, the wireless, and Women's Institutes.

In one of his delightful essays on the out-door life and pleasures of England, C. E. Montague described the passing of the squirearchy and of many old country estates, which can no longer be maintained by the families that have lived in them for hundreds of years. War taxation made them feel the pinch of impoverishment. As he puts it: 'The funeral bell began tolling as soon as the Allied victory on the Marne in 1914 had run its limited course and the Germans had settled themselves into their trenches between the Alps and the sea. Thenceforth the War must be one of attrition, life against life, purse against purse. It might leave us with only a quarter of our old incomes taken away, or a third, or a half. But any of these heroic diminutions would suffice to throw out of gear the precariously geared finances of English country houses.' I remember the late Marquis of Lansdowne saying precisely the same thing to me in more prosaic language. He pointed to a large map of England, showing the little green parks of the country squires dotted all over it. 'Practically all those', he said, 'are doomed to disappear. They cannot stand the new burdens of War taxation.'

In another essay, Montague deplores the loss of travel abroad and all that it meant for the pre-War generation, for whom frontiers had been unlocked. In those happier times 'you wandered freely about the Continent as if it were your own country. . . . You did not even need to have much money; money went twice as far as to-day'. For the younger generation, he says, the loss of knowledge, the rapturous knowledge, that older men drew from their travels on the Continent is irreparable:

'For they are out of it all; it belongs to a lost world which they are not even able to miss; they are so far from having ever entered it. Checked in their mental growth by dead mechanical teaching, bound over for life to remain over-grown dunces, tied down to second-rateness by many impressionable years of intimacy with mean valuations, what are the poor things to do; some of them are brought perhaps by the more virile kinds of sport as near as they are likely ever to come to the thrill of the high adventures of the human spirit.'

Some of them, he admits, do escape, but his refrain is the melancholy

one: 'Happy are those who had their youth in those unhampered years before the War came to chill and constrict what it did not destroy.'

Montague, it should be added, was an Alpinist, an artist, a passionate lover of natural scenery and historic associations. His feelings are intense, and his language exaggerated. He was one of those who hailed the War with enthusiasm, and enlisted with ardour. He was disenchanted and disillusioned, and all his fine literary work in the years that followed was tinged with the melancholy contrast between what had been and what is.

No doubt, as another correspondent observes, the increased ease and rapidity of transport and communications offer a marked contrast between present and pre-war days. Town-dwellers can get much more quickly and cheaply into the country, just as countrymen can get into the towns. This greater mobility of the post-war population has helped to develop local, national, and international athletic contests, and exerts on the whole a cosmopolitan influence which may tend eventually to break up nationalism and get rid of war. It may be argued that the War hastened the process by accelerating the development of motor vehicles and aeroplanes. Whether the passion for speed and the absorption of so much talent in mechanics can be regarded as helpful to civilization is another question. The loss of life and limb on the roads seems to excite very little horror. The annual casualties on the roads from 1931 to 1933 were much greater than those of the Boer War!

Another woman, an Oxford graduate, an acute observer of society, sends me some remarks on the younger generation with which she has grown up:

'The effects of the War is an almost inexhaustible subject if you have, as I have, a pre-war husband and a post-war sister. As to "economic, social, moral, and religious", I don't see how you can hope to disentangle them, and I am afraid you will find mine all lumped together and hopelessly interdependent. 'There have been, I think, two main developments since the war—a sense of instability, and a tendency towards uniformity.

'The post-war generation suffers from a sort of inward instability, a lack of character, due, probably, to the somewhat hysterical atmosphere of their childhood. There seems nowadays to be no desire to provide for the future or look beyond to-morrow. The war shattered that sense of security which brooded over Victorian homes, and made men buy estates and lay down

cellars against their own old age and for the benefit of their sons. Many of those who so "laid up treasure on earth" either perished themselves or saw their hoards destroyed, and the present generation is convinced of the futility of providing for an uncertain to-morrow. Neither life nor property was sacred in war; why then make a home and learn to love it only to have it snatched from you? Let us all be wanderers, never striking root, always seeking diversion! The spirit which must have dictated the amusements of so many men on leave from the trenches has not left us yet. Let us eat, drink, and be merry, for to-morrow we may be dead—or at least there may be nothing to eat or drink. "Life's too short" is a phrase one often hears now if any serious endeavour is suggested. Is anything worth while? Can there even be a God to allow such horrors?

'The second main tendency seems to be towards uniformity in every sphere. Mass destruction has led to mass production and the loss of individuality. Four years in a khaki uniform accustoms the eye to a drab sameness and four years of learning to obey orders saps initiative. It is only fair to say that the latter condemnation applies more to the private soldier and its consequences are only too evident among the working classes to-day. In an officer, on the other hand, self-reliance and a deep sense of responsibility could not but be developed, and there must be among them still many whose characters were inestimably enriched by their wartime training.

'This tendency towards uniformity shows itself also in the breaking down of barriers which formerly existed between class and class and group and group. War-time economy and ration tickets did much towards bridging the gulf which was fixed between the way of living of rich and poor, and both the new rich and the new poor have learnt that the old social orders were not immutable, that the roles of Lazarus and his patron *are* interchangeable.

'Levelling was inevitable in a period when a duke's son served under his gardener's boy; or a duke's daughter hoed turnips while her "social inferiors" were buying themselves fur coats out of their earnings in the munition factories. It is significant that you seldom hear nowadays the phrase which was once so common: "I know my station".

'In the same way the line which formerly demarcated so clearly the province of women from that of men has now become so blurred as to be often scarcely visible. During the war, women perforce undertook men's jobs and showed unexpected capability. Since then they have managed, not without a good deal of ill-feeling, to retain their footing in business and most of the professions, not to mention the now all-important world of sport.

'Just as the sphere of women is now less sharply differentiated from that of men, so have the nursery and the drawing-room drawn closer together. Those who were children during the war undoubtedly missed the influence—and the bullying—of elder brothers and fathers who were fighting; and to this lack of discipline (which has persisted long after the cause of it has been removed) can be added the indulgence shown to their

remaining children by women who had lost husbands and sons. Before the War (in better class families at least) children were kept apart from their elders, had their own good plain food in the nursery and found their own simple amusements. Now they mix more freely with their elders, sit down to table with them, play the same games, and expect and get much more attention and amusement. Those who were actually growing up during the war probably lack strength, mentally and physically, for the general atmosphere was one of sentimentality and hysteria and they probably were under-nourished. But it is a great reflection on the common sense of parents of to-day that the indulgence and lack of discipline which were pardonable in wartime should be allowed to remain, and the fact that for four years Age *had* to stand aside and admire the feats of Youth is a poor defence for the absence of respect from the younger generation to the older in 1933.

‘The war did a lot of harm, but it is responsible for the loosing of many fetters which were doing no good. In a time of emergency, superfluous formalities were dispensed with, the perverse and unhealthy conventions which kept men and women apart were swept away; and the present unfearful intercourse between parents and children has much to commend it. This freedom, if we don’t abuse it, seems likely to be one of the few legacies of the war for which the present generation has reason to be grateful.’

At this point I may interpose a general observation as regards the post-war generation of young men, more especially of those who have passed through the universities and are looking out for work. I think, and I am confirmed in this by many of my contemporaries, that they are on the whole less industrious and enterprising, less public spirited, and less interested in politics. One of their favourite excuses—that politics is a low business and that politicians are rogues—is a very poor one; for, if true, it is a good reason why private citizens should bestir themselves to see that their country is better governed. The editor of one of our great newspapers told me the other day that since the War he has always had great difficulty in finding men who are either willing or competent to write on politics.

Another correspondent, an active and prominent member of the Labour Party, who has been in close touch with the younger generation, and especially with those who have developed Socialist leanings, writes as follows:

‘Post-War people, as compared with pre-War people, have lost confidence in things human and divine. The awful massacre, waste, cruelty, and injustice of the War shook belief in a benevolent Deity and a providential dispensation. Commercial morality was undermined by War profiteering and contrast of the fortunes and high incomes made by those

who stayed at home with the low wages of those who risked life and limb in the foul miseries of trench warfare. Subordinates were infected by the dishonesty of the bosses. The idea of "eat, drink, and be merry" spread, and habits of thrift and saving diminished, though investment losses were much less than in Germany or France.

'The long depression and unemployment have also had a demoralizing effect. There is a good deal of despairing bitterness and a lack of enterprise, perhaps, among those who find it difficult to get jobs. Unfortunately, those born after the War or during it, or rather those who don't remember it, do not definitely relate present miseries to after effects of war, and are less inspired with horror of war than one might have hoped or expected. There is also a general distrust of politicians and statesmen.'

A Yorkshirewoman, whose politics are Liberal, of a type now regarded as old-fashioned, is also pessimistic. Her shrewd and caustic observations, even when they descend to what may be thought rather petty matters, seem worth putting on record:

'On one point, I should imagine every one will agree, that class distinctions have positively toppled down since the war; or rather, social barriers have been removed, not entirely by the upper classes becoming less exclusive, but much more by a general uplifting in the standard of living of the workers. Luxuries once enjoyed by the few are now regarded as ordinary expenditure by young people whose immediate antecedents were unaccustomed to any such amenities, and in the case of the same people their standard has gradually altered in the same way. Take for example the telephone, wireless, electric light, motor-cars, "pictures". It might be said that these are all recent inventions brought into common use by the developments of science; but, unless the standard of living had been considerably raised, these would still have been considered great luxuries to be only used by the wealthier classes, and it is largely due to the high wages paid for munitions during the war and to industrial workers in 1919-20 that luxuries have gradually come to be regarded as commonplace expenditure by the poorer classes.

'Stated thus baldly it would seem that one inferred the results of the War to have been distinctly beneficial on the standard of living, but it is only in the case of the workers where the upward trend is so marked. The landed aristocracy have been almost taxed out of existence, and are mostly living in a much less luxurious way than before the War; and the middle classes are undoubtedly labouring under a burden of taxation such as they have never before been called upon to bear. The chairman of a very prominent colliery company in the North, in a letter to me the other day, wrote: "It is an unprecedented time of widespread depression, and this industry (i.e. the coal industry) is feeling it in such a way as I have not before experienced." This state of affairs is probably typical, not only of coal, but of most of the *old* industries in the North of England, e.g. iron, cotton, wool, shipbuilding, &c., but we are told that in the South things

are not so bad owing to the running of so many new industries chiefly in connexion with our new luxuries, gramophones, radios, electric gadgets, and the like; but how far this reaches I have no means of knowing.

‘Personally I cannot but think that the War has intensified very much the problem of unemployment by piling up trade barriers owing to this stupid fetish of “Nationalism”, which is the natural result of the racial hatred propagated officially by the Government in order to get recruits during the War. The fact that this kind of “God curse our enemies” doctrine was upheld by the Church during the War, has stiffened that prejudice, and helped to prolong the period of bitterness definitely created and upheld by the Church and the Government at that time. In a speech at Shipley, Vivian Philipps once defined, in most beautiful language, how Free Trade harmonized with the Scheme of Creation, allowing each country to grow the products that a kindly Benevolence had adapted to its climate, in exchange for goods more easily grown or produced in another country. People are rather given to deride the idea of associating Free Trade with the general scheme of Creation, but Vivian Philipps put it in such a delightful way that one wished preachers would have the courage to apply the passage “Love thy neighbour as thyself” to the doctrine of Free Trade and the solution of our world problems. A real appreciation of this fundamental truth would probably have prevented the Great War, as it would even now, if thoroughly understood and appreciated, prevent any future Great War.

‘Don’t you find, in thinking over the effects of the War, that you are always needing to differentiate between results which are due to the War, and results due to the achievements of science? It would be interesting to imagine what kind of world we should have had if there had been no war, and science had still given us the same inventions we now have, i.e. wireless, flying, electricity, &c. I think women would probably not have come so much to the fore in the field of sports and athletics, but we might have had more distinguished women in the realms of Art, Literature, and Politics. It is strange that the War has thrown up no great man. In politics there is no outstanding personality, no Gladstone, or even Disraeli—and you also look in vain for an Ellen Terry or a Rosa Bonheur or a George Eliot. The War *has* produced a Mussolini, and that again seems typical of what a great war would bring forth—a man who realizes the mediocrity (or less than mediocrity) of the brains of those countrymen who are left after the bright young intellects have been destroyed; and uses the opportunity of exercising a powerful autoeracy, which a more intelligent nation would have refused to bow to.

‘In seeking for the biggest disturbance caused by the War, I should say that we have lost most heavily in our ideals. Speaking very generally, every one nowadays is more out for himself or herself, and the idea of personal service for others has been thrust into the background. The idea that the State will step in to relieve unemployment, *expecting no return*, has broken the morale of the workers, and the fierce competition in the professions and industries, allied with heavy taxation, has caused the middle

classes to become more self-centred, with the result that leisure time is spent in pleasures all ready provided by professionals, and intelligent recreation has almost disappeared. In fact professionalism has almost become a curse. A friend of mine is now earning £4 a week teaching "Bridge", and is shortly going up to London to take an exam. in Bridge so that she can increase her charges. The pupils are all women who spend half their time playing cards for money, and in order that they can become expert enough not to lose too much money, they will pay for lessons, being too idle or too stupid to learn it for themselves. This trend of depending on professionals for even our pleasures is surely one result of lowering the standard of our ideals, and of losing the gift of personal service. On the same lines, it is quite customary at large hotels to have a resident lady entertainer, who fixes up bridge parties and introduces young people to each other for dancing—an unnecessary post surely for people with any initiative of their own. Although it seems a far cry from the War, this lack of initiative may be largely due to military discipline, crushing all individual thought and effort, and making men into puppets, not allowed to call their soul their own.

'Speaking of morals, I should say the War has lowered our standards in all directions. Not only has crime increased, but there is a looseness which is, if not approved, quite accepted as the normal and usual. Employees are not as conscientious in carrying out their duties, truthfulness is hardly expected, modesty (a favourite word of my father's) has almost gone out of the English language, and strict honesty is a rare virtue. A mistress, the other day, on being asked whether an ex-servant of hers was honest, replied: "Oh yes, quite honest, except perhaps in the matter of stockings and handkerchiefs". This all-round laxity in the moral code is undoubtedly a direct result of the War, and must be far-reaching in its ultimate effects.'

The attitude of the younger generation which grew up during or after the War is naturally rather different. They are not as a rule endowed with the bump of veneration for their elders—in fact some of them think that they might have managed things better, and that the world after the War is a spectacle which does not redound to the credit of pre-war statesmanship. A girl who grew up after the War tells me she is quite sure that among women, especially among the middle classes, the taste for independence has increased. They are less content to stay at home, and are anxious to fit themselves to earn a living after leaving school—partly because, owing to the massacre of young men in the War, opportunities and expectations of marriage were circumscribed. In the War, they found themselves able to do, more or less well, much work which had hitherto been monopolized by men, and thus many of them gained self-confidence and ambition in life. Nowa-

days far more girls are sent to good schools and universities, where they are encouraged to take up work as teachers, doctors, nurses, secretaries, book-keepers, as well as in shops and various business offices. In many cases the loss or decline of income from investments has made a virtue of necessity. My correspondent thinks that the social barriers which divided the middle from the working classes have largely disappeared, and that the advantages of greater freedom have outweighed the disadvantages. Girls are more ready to think out things for themselves; and the disappearance of conventional restraints upon friendships between young men and women has, she thinks, increased the happiness of both. They meet on an equal footing, and there is a far wider enjoyment of sports and recreations of all kinds. A more rational dress has also contributed to the health and welfare of women.

An Oxford friend, C. R. Hone, now Bishop of Pontefract, who has taken a keen interest in social questions and the life of the working classes, has been good enough to send me some notes regarding the effects of the War on religion in England. They will form a fit conclusion to this chapter.

‘It is obviously most difficult’, he writes, ‘or indeed impossible to analyse with any approach to scientific accuracy so complex a problem as the effect of a war on the religious life of a nation, and no attempt will be made in these notes to give statistical data. Indeed if statistical data of church attendance were available, it would only represent a partial view of the subject, since, while the figures of church attendance may give a rough indication of the effective membership of one or another branch of the Christian Church, the influence of Christian ideals on the life of the nation is much wider.

‘The problem is further complicated by the difficulty of taking into view the several denominations of the Christian Church, whether Anglican, Roman Catholic, or the Evangelical Free Churches: it is also necessary to remember the existence of other cults, such as Christian Science and Spiritualism, outside the main stream of the Christian tradition.

‘The notes then that are here made are general impressions derived from personal experience and discussion with others, and from current literature on the subject, during and after the War.

‘It may be useful in the first place to attempt to analyse the immediate and after effects of the War on the men who actually served in the Army.

‘It is surprising to hear from many chaplains, and from men who served in the ranks, that the War had curiously little effect on the religious outlook of the majority of the men. Those who had deep religious convictions on the whole tended to maintain them, despite the horrors and shocks

to faith through which they passed; those who were irreligious or indifferent for the most part remained so. Superficial ideas of religion and of prayer, which regard prayer as a prophylactic against danger, were certainly shattered, but deeper and worthier convictions persisted through all the storm and stress. The fact that so few were affected was no doubt partly due to the life of a soldier being mainly a matter of routine from day to day, and cheerfulness and fatalism were the governing ideas encouraged in the Army. "It is good policy for a soldier to suppress thought and emotion." The historic sergeant was right when he said to an officer: "It would never do, sir, to let the men take this 'ere War seriously".

'Chaplains in the Army almost unanimously comment on the very vague and indefinite ideas as to the meaning of the Christian Faith among the majority of officers and men: they found curious tags of knowledge of Bible stories, and ideas of God largely derived from the Old Testament, but little clear apprehension of what the Christian Faith stands for as an interpretation of life, and as a guide to conduct. Yet with this, there was a general recognition of certain ideals of fellowship and self-sacrifice, of helping and standing by one's pal, which formed part of the moral outlook of the men, to which Christian teaching had at least contributed. One observer put it thus: "The organized institutions of the Christian religion have little attraction for our soldiers . . . but the practical Christianity of the trenches is very real and very widespread. Patience, faithfulness, cheerfulness, unselfishness; these are great qualities." Further, there was the universal conviction that war was morally and physically hell, and therefore presumably the antithesis of the Christian ideal.

'How to reconcile the muddle and horror and loathesomeness of war with any belief in God was probably not deeply considered by the majority, though the general effect on their minds was in many cases to make them feel that the Christian Faith was untrue, or of little account.

'Certain specific effects of a more permanent character may now be noted.

'First, amongst the chaplains there was undoubtedly a great breaking down of the barriers of denominational difference: the sharing in common of work, suffering and danger inevitably tended to make the differences which separate Christians appear of less importance, and a great desire for unity was evoked: this is only true in a small degree in regard to the Roman Catholics. The Lambeth Appeal to Unity by the Anglican Bishops in 1920 was largely inspired and reinforced by the recognition of the evils of disunion and the imperative need of greater co-operation and of unity, which had been revealed in the War. The freshness of the desire on either side may to some extent have died down in the last ten years, but the movement still continues, and undoubtedly there is much less jealousy and misunderstanding between the Anglican and Free Churches than thirty years ago. Notable evidence of this may be seen in the problem of Religious Education in elementary schools. In view of the War, and of what the War revealed, the opinion was voiced again and again that there was need of more and not

less religion in the schools, and there has been ready co-operation between Anglicans and Nonconformists on Religious Education Committees in order to improve the religious teaching in day schools. This perhaps has been the most notable good effect that has come about largely through the War experience.

‘On the other hand, it is easy to point out a number of ill effects on the religious life of the country.

‘First, there is no doubt that a large number of young men, taken away from their homes and from comparatively sheltered surroundings, were quite unable to withstand the moral dangers into which they were plunged. Whatever of heroism and courage and self-sacrifice may be called forth, there is no question that war means the breaking of all the Ten Commandments on a large scale. In camps at home and at the base, and at times on leave, there were widespread inducements to sexual irregularity and heavy drinking. This had a twofold effect; in many cases it meant a hardening of the moral and spiritual nature and a definite repudiation of the Christian standard of morality; in many other cases it has meant a sense of shame and remorse: unpleasant secrets, which have never been cleared out of the life, have been an effective hindrance to any wholehearted religious profession afterwards. Whatever cynics may say, the ordinary man has an intuitive sense of the need of personal purity, if there is to be any sincere profession of religion: he recognizes the affinity of “the kindred points of heaven and home”.

‘But service in the Army and War experiences affected not only actual conduct, it had also a very widespread effect in breaking down conventional ideas both in religion and morality. War “mentality” was admittedly unbalanced: it lost any stable standard of values. This was particularly true immediately after the Armistice and in the succeeding years. The main ideas of those awaiting demobilization were a sense of and desire for relaxation, a reaction from the strain and demands of war-time service, and the determination “to have a good time”. With this came a revolt not only against the restrictions and conventions of Army life, but also against pre-war standards. It is said, for example, that even the singing of the National Anthem was resented as a piece of Army discipline, and attendance at Church Parade services could scarcely be enforced. This revolt from convention had far-reaching effects on religious and moral ideas throughout the country. As at the Restoration after the Civil Wars, and in the time of the Regency after the Napoleonic Wars, so once again literature and the stage reflected a greater licence than in pre-war days. Christian moral standards, as well as the Christian Faith were challenged from many sides,¹ and the effect has been on many a definite repudiation of traditional morals and a widespread decline in religious observance. It is worth noting that the obligation of attendance at the college chapels in the older universities was in most colleges abrogated at this time, owing to the influence of younger Fellows and the influx of Service undergraduates.

¹ e.g. by Bertrand Russell and Aldous Huxley.

‘It seems probable that this extreme form of reaction against accepted religion and morality is already waning in its influence; and it is to be remembered that the decline in church attendance is not due entirely to the War: the opening of golf links on Sunday, and the provision of other forms of amusement may have been facilitated and increased by the breakdown of old-fashioned restrictions and customs in war-time, but this tendency was already present; and the multiplication of motor-cars, and other means of transport, has undoubtedly tended to decrease conventional churchgoing.

‘There are, however, at the present time undoubted signs of a considerable revival of interest in religion and of a return to religious observances. Many observers in the industrial North have noted the large number of young people who are attending church, and who are active in church work, in clubs and guilds, and as leaders among scouts and guides. It is noticeable in many places that congregations are largely composed of the more elderly and of the young, while the middle-aged, in fact the War generation, are less fully represented.

‘The reports of London and the suburbs, and probably also of the villages, would not generally be so encouraging: indeed in the New Religious Survey of London published in 1932, in one borough attendance at places of worship had fallen from 25 per cent. of the population in 1907, to $4\frac{1}{4}$ per cent. to-day.

‘Two other sources of evidence are worthy of consideration. The Press is supposed to be some indication of popular interest and opinion, and the friendly tone of the greater part of the Press to religion is very marked. Some of the leading journals have thoughtful religious articles week by week, and a large space is occupied in local newspapers with recording religious activities. Again, the B.B.C. provides very freely in its programme for religious services and addresses, and it has stated emphatically that the proposal to curtail this part of the programme has been met with strong protest.

‘It would seem therefore a mistake to conclude that the War has had any considerable permanent effect in weakening religious interest or religious beliefs.

‘We may turn now to consider whether the War has had any effect on the contents and form of Christian belief and teaching within the Churches. Four points may receive attention:

‘(1) The premature death of thousands of young men inevitably turned the thoughts of many mourners to questions about the Future Life. Some sought to satisfy their longing for those who were gone by resort to Spiritualism, and for a time Spiritualism had a considerable vogue: but most found little satisfaction, moral or spiritual, in this cult, and now probably the movement is little, if any, stronger than before the War. The reaction in the Church was a greater emphasis on the remembrance of the Departed in the Church’s prayers; this found expression in the Anglican Church, not only in the authorized forms of prayer during the War, but also in the definite provision of such prayers in the Revised Prayer Book of 1928. To

a less extent the same influence has been felt in the Nonconformist Churches. The amazing popularity of the observance of Armistice Day throughout the country, and the homage of thousands at the Unknown Warrior's Tomb is a remarkable phenomenon. In this observance is blended real gratitude and remembrance of the men who died in the War with strong national feeling, but what is the religious value of it all, it is difficult to say.

‘(2) There is no question that the Christian conscience in all parts of the Church has been quickened as seldom, if ever before, on the evil of war. This is abundantly evident in the sermons of the clergy and in the writings of theologians of all churches: it is shown by the fact that the League of Nations Union looks for most of its active support through the Churches, and by such organizations as the World Alliance for Promoting International Friendship and by the Stockholm Conference on Life and Work, in which representatives of all countries, Eastern and Western, eagerly co-operated. The work of the Conference is carried on by the International Christian Social Institute at Geneva. This spirit again has found notable expression in the Anglican Church in the Resolutions of the Lambeth Conference in 1930 on Peace and Arbitration. Thus the section opens with the statement: “The Conference affirms that War as a method of settling international disputes is incompatible with the teaching and example of our Lord Jesus Christ.” The authoritative teaching of the Church in this and in other matters has shown a more definitely ethical orientation than was often found in earlier official declarations.

‘(3) On the other hand, in the crash of modern civilization evidenced by the War, the easy optimism which believed that the world was gradually getting better by a process of evolution received a rude shock. On some the effect was to produce either pessimism or moral scepticism; but on others the effect was to drive them to seek a more authoritative form of religion, either as an escape from the world, or as promising some religious solution of world problems, where secular and evolutionary ethics have failed. This tendency was seen on the Continent by a considerable revival of Roman Catholicism in France, Germany, and Middle Europe, and also by a revived authoritative form of Protestantism in Germany, associated with the name of Karl Barth. We must not forget on the other hand the vast experiment in a definitely materialistic and atheistic Communism in Russia, with its widespread propaganda, though so far as can be ascertained the influence of this teaching in England is limited to a very few. It is difficult to say whether the Roman Catholics in England are securing as many more adherents as they claim, but certainly in the Anglican Church there is a tendency to emphasize the authoritative and institutional and cultural side of religion in contrast with the individualistic piety dominant in the nineteenth century. This is shown by the strength of the Anglo-Catholic Movement, which in part at any rate is due to the same underlying causes which have led to a revival of Roman Catholicism on the Continent. Individualism and mild evolutionary ethics have proved

unsatisfactory to many, and something more authoritative has been sought. This tendency has had little effect in the Evangelical Free Churches, as it is more alien to their fundamental position; but a parallel revival of interest in, and emphasis on, personal religion, as distinct from the dominating interest in its social effects, has undoubtedly been a marked feature in the Student Christian Movement in recent years. Very notable evidence of this is to be seen in the Oxford Group Movement, started by an American Lutheran, Mr. Buchmann. This is intensely individualistic and pietistic in character, and has been a strong influence, not only in the Universities, but also in many parts of the country and in the Dominions, specially in South Africa.

‘(4) Lastly, the War has led to a considerable output of theological writing dealing with the fundamental questions raised by this catastrophe. Thus, to refer again to the Lambeth Conference of 1930, it begins with a call to the Church to think out afresh the Christian doctrine of God, in the light of experience, and in the light of modern scientific research as to the character of the universe. There may be in this some indication of an era of unsettlement and intellectual unrest, rather than of confident faith, but at least it is some evidence of the trend of religious life and thought.

‘In conclusion it seems true to say that the effect of the War on religion in England was for a time definitely detrimental in alienating many from religious faith, and in breaking down habits of religious observance; but it seems doubtful whether its influence in these directions has been long enduring, or permanent in character. On the other hand, the influence of war service in overcoming denominational differences and prejudices promises to have a more enduring effect; and experiences learnt through the War have awakened the Church to a more active recognition of its responsibilities in the promotion of international peace, and have stimulated efforts to give a more intelligent and coherent presentation of the Christian Faith to meet the needs of the rising generation.’

CHAPTER II

CONSCRIPTION AND PACIFISM

It was no doubt the introduction of conscription for the first time in English history by the first Coalition Government under Mr. Asquith that made pacifism powerful in England, just as the introduction and extension of D.O.R.A. along with the Press Censorship convinced Englishmen that a great modern war necessarily encroaches upon civil liberties and may even utterly subvert them.

Conscription brought with it the problem of the conscientious objector; for besides the Quakers there were many thousand men of military age who were determined on various grounds not to take part in the War. If Germany had declared war on Great Britain most of them would probably have volunteered to defend the country against invasion; but they revolted against being conscribed for overseas service for the defence of France, or for the attack on Constantinople, or for the conquest of Palestine. Many were moved like the Quakers by a moral or religious objection to taking life; and many, no doubt, shrank from the prospect of being killed or maimed in a cause which made little or no appeal to them. It may be recalled here that in the war of American Independence, 1776-81, many leading Whig officers in the army refused to take service against the Americans because they thought the American Colonists were right in resisting the policy of George III and Lord North. A very similar feeling had been manifested during the Boer War, when a majority of Liberals and trade unionists were opposed to the policy of Mr. Chamberlain and Lord Milner. In the case of the Great War there was practically no sympathy with the German Government, and German militarism was almost universally detested by the English people. There were a few, indeed, like the late Mr. E. D. Morel, who tried to show that the Germans were no more responsible for the War than the French, and there were many more who threw a good deal of the responsibility upon the Czar's Government and upon Serbia. But the main objection was to the secret diplomacy which had involved the country unwittingly in what practically amounted to a defensive alliance with France; for it was clear that Sir Edward Grey interpreted his diplomatic commitments as an honourable obligation to take part with

France and Russia if they became involved in a war with Germany and Austria.

When conscription was first mooted in the House of Commons on December 21st, 1915, a Conservative member, Mr. Duke, declared: 'the State may command a man's goods and his life and everything he has except his soul'; to which Mr. T. Edmund Harvey, a Liberal member who belonged to the Society of Friends, replied on behalf of the Quakers 'we cannot take life even at the call of the State'. By January 4th, 1916, the Cabinet had decided for conscription, and Sir John Simon resigned from his office as Home Secretary on the issue. On the following day, January 5th, Mr. Asquith introduced the first Conscription Bill, imposing compulsion on unmarried men. The Bill, as he said, exempted those who though unmarried were the sole support of persons dependent on them; it allowed for disability arising from health or infirmity, and it 'respected the scruples of those who, on conscientious grounds, objected to undertaking combatant service'. To decide whether men should be conscribed the Bill set up in every locality a local tribunal. Sir John Simon, who followed the Prime Minister, declared that the objection to compulsion was an objection of principle. The real issue was 'whether we are to begin an immense change in the fundamental structure of our society'. He reminded the House of Commons that the Prime Minister had stated in November that 'Compulsion could only be resorted to as a practical matter with something in the nature of general consent'. Sir John saw 'little sign of this general consent and little prospect of its being attained'. He also denied that the voluntary system had failed. In this view he was supported throughout by the Irish leaders and by a small body of Liberal and Labour members, including men of such prominence as J. Ramsay MacDonald, Philip Snowden, J. H. Thomas, R. D. Holt, J. M. Robertson, John Burns, Leif Jones, Sir Wilfred Lawson, Percy A. Molteno, Joseph Devlin, Arnold Rowntree, C. P. Trevelyan, John Dillon, John Redmond, Arthur Ponsonby, A. G. C. Harvey, and Sir Walter Runciman. In the first division against the first Conscription Bill on January 6th, there voted for 403, against 105.

The case of the conscientious objector caused much perplexity to the Government and to the military authorities. I well remember one evening being consulted on the subject by one of Lord

Kitchener's officers who had also invited a Canon of the Church of England. At the commencement of the talk I remarked: 'I suppose we should all agree that, if Jesus Christ were summoned under the Act as a person of military age, He would have been a conscientious objector and would have been shot rather than take part in the War.' The Canon was startled, but after a little hesitation said, 'I never thought of it, but I suppose you are undoubtedly right.' Lord Kitchener himself was not a hard man, and he was anxious to do what he could to prevent friction between the military authorities and the civil population.

Mr. Asquith had already shown in the case of the McKenna Duties his indifference for the duration of the War to political and economic principles, and the same note pervaded his remarks and speeches about compulsory service. The question of conscription was a pure question of expediency in his eyes, and there is no doubt that the various stages from the compilation of a national register to the compulsion of single men and the compulsion of married men were introduced with all the adroitness and skill of an experienced parliamentarian. The chief difficulty of the advocates of conscription was at first the opposition of the trade unionists, and Mr. Asquith himself admitted the danger that 'unscrupulous or unpatriotic employers' might find some pretext for dismissing a Socialist or over-active trade unionist who had received a certificate of exemption. Such a man would lose his certificate, and unless he could get re-employment at once in some similar trade, he would become *ipso facto* a soldier, and subject to military law.¹ Mr. Asquith felt sure that such cases would be very rare. But of course there was bound to be favouritism. So long as trade union officials and journalists were ready to support any measures of the Government, they could count on not being called up for military service. The means employed to silence opposition and criticism were largely of this nature. In its handling of the House of Commons, of the trade unions, and above all of the Press through the Censorship and through the instrument of conscription, the Government preferred not to resort to overt pressure. In the end, as it proved, there was enough of the spirit of sturdy independence left among the older men (who could not be called up or browbeaten) to maintain, in a small section of the weekly press and even after a

¹ See Mr. Asquith's speech in Hansard, Jan. 12, 1916.

time in a small section of the daily press, a patriotic but quite outspoken criticism of the Government's measures and of the speeches of Ministers. There was no desire, of course, on the part of the Government's critics to say or print anything which could be of military value to the enemy.

Supporters of voluntary service had not been misled by the Prime Minister's assurances that the National Registration Act was not a preliminary to conscription. Lord Derby, for instance, who was in charge of recruiting, had made it clear that he wanted universal conscription for the War and after the War. The first Compulsory Service Bill was supported by Mr. Arthur Henderson—as 'a convinced and ardent supporter of the voluntary principle'. But Mr. Snowden said bluntly that it was a surrender by the Cabinet to a conspiracy of its conscriptionist members that had been going on for months. It was in fact obviously, as both Mr. J. H. Thomas and Mr. John Dillon pointed out, 'the thin end of the wedge'. During discussions of the Bill in Committee Mr. Snowden moved that the death penalty should not be imposed on conscripts enlisted under the Bill, and took the case of a conscientious objector whose claim was overruled by a local tribunal, yet still persisted in his conscientious objection. If he refused to respond to the proclamation calling him up, he would become a deserter and the death penalty might be inflicted on him, though his offence would be simply persistence in a conscientious objection to taking part in war. A man who enlisted voluntarily in the army knew the penalties to which he was exposed, but conscription usually took a man against his will. Sir F. E. Smith, afterwards Lord Birkenhead, who was then Attorney-General, assured Mr. Snowden on behalf of the War Office that conscientious objectors, who might face the death penalty rather than give up their convictions, would not be given the opportunity. In such cases the death sentence would 'under no circumstances be pronounced'. In a further explanation the Attorney-General seemed to admit that an agnostic as well as a Christian might be admitted to have a conscientious objection. This reminds me of the case of a young conscientious objector whose physical courage was undoubted. His claim was admitted, though he did not base it on religious scruples. During the War he did non-combatant service for some time as an agricultural labourer and at another time in connexion with a war hospital. Early in

1917 he wrote to a friend of a curious incident which occurred in the hospital:

‘A little while back the Archdeacon of — held a Communion Service here for the Soldiers; but when he arrived early in the morning, not one could be induced to attend, and the service attracted only three persons, all on the Hospital staff. The Archdeacon was naturally upset. All sorts of enquiries were made; at last one of the soldiers, on being asked why he did not go, said that the service included the reading of the Commandment, “Thou shalt not kill”. He felt accordingly that he would not go. Yesterday morning the Archdeacon held a second service, which was largely attended. The reading of the Commandments was omitted.’

The first Military Service Bill passed its third reading on January 24th, 1916, and for some time afterwards the unfairnesses and injustices to which it gave rise, and the different treatment accorded in different areas by the various local tribunals to those called up, were constantly brought up in the House of Commons. In several cases, in spite of the Prime Minister’s pledge (which was not embodied in the Act), the only son of a widowed mother was refused his application for exemption.¹ As a matter of fact there were many instances in which entire families were wiped out. On February 23rd, 1916, ‘the only son of an aged mother living at home, two other sons having gone to the war, was refused exemption by the tribunal, on learning from the military representative that no *financial* loss would be suffered by the mother if her third and last remaining son was taken into the army’.

From the standpoint of public finance and economy there was an immense amount of waste in recruiting for the army. Captain L. S. Amery, an ardent advocate of conscription, declared in the House of Commons on March 14th, 1916, that there were in the Army some two hundred thousand men (costing £250 a year each) who were physically unfit for service. On March 22nd, 1916, during a discussion on the shortage of labour some one drew attention to the case of certain fanatical conscientious objectors who preferred prison and martyrdom to doing anything useful, while another taunted Mr. Lloyd George with his new attitude of ruthless militarism which seemed to be in glaring contrast with his old reputation as a pacifist. Mr. Lloyd George said: ‘some alleged conscientious objectors are really cowards. My hon. friend asks what would have

¹ This and other hard cases are recorded in the *Parliamentary History of Conscription in Great Britain*, by R. C. Lambert. London, Allen & Unwin, 1917.

happened to me if I had been recruited in the Boer War. I would not have hesitated for a moment to take part in helping to cure the wounded.' Tribunals, he added, are entitled to search out 'rigorously and relentlessly' the motives of conscientious objectors.

The first Conscription Bill was followed as had been anticipated by a Military Service (General Compulsion) Bill which Mr. Asquith introduced on May 3rd, 1916. It extended the obligations of military service to every male British subject between the ages of 18 and 41. Its rejection was moved on the second reading by Mr. R. D. Holt on two grounds. First, that it was intended to be used as an implement of excessive development on the military side of the British war effort, seeing that Great Britain had to bear the main brunt of providing the Allies with munitions, equipment, and money. The extension of the War to other fields than the Western front, where no decision was likely to be reached, at immense cost in men and money, was frequently criticized by weighty authorities in this and the succeeding year. Mr. Holt also objected to the extension of conscription on the ground that the country ought never to have departed from its unbroken tradition of voluntary service and that any further extension of conscription was therefore morally and politically unjustifiable. The motion for rejection was supported by Mr. Lees Smith, then a Liberal but afterwards a member of Mr. Ramsay MacDonald's Labour Cabinet. Mr. Lloyd George's reply showed that he was an out-and-out supporter of conscription, holding compulsion to be necessary and imperative in a war for liberty. In his view conscription was both Liberal and Democratic as well as an indispensable instrument of victory.

During the debates on this second Military Service Bill (May 15th, 1916) two well-known Tories, Sir F. Banbury and Mr. Joynson-Hicks, made an effort to limit conscientious objection to Quakers. They practically denied the right of any individual to have a conscience at all. 'Logically', said Mr. Joynson-Hicks, 'there should be no such thing as a Conscientious objector. Logically no man, when the country is at war fighting for its very life and existence, has the right to stay in the country and not take his part in its defence. He has no right whatever. The man who is a conscientious objector and will not fight for his country, is in reality fighting for the Germans.' Mr. Joynson-Hicks would not have exempted even the clergy, and would have voted in the House of Commons

against their exemption had he not been speaking at a recruiting meeting.

Lord Hugh Cecil desired that indulgence should be shown to the sincere and conscientious objector, 'because it is wrong to force a man to do what he sincerely thinks is immoral or irreligious'. It was not a question of sympathy but of what it was right to do: 'It is a familiar problem of government all over the British Empire. A Mahommedan thinks it wrong to eat the flesh of a pig. We think that a very unreasonable prejudice, but we should act very wrongly if we compelled Mahommedans to eat the flesh of pigs, because it is wrong to force a man to do what he thinks is wicked, however foolish his opinion.' Another member said it was bad policy to embarrass the army with men who never would be soldiers,

'You may punish them and shoot them. You may put them in prison. You may break down their physical strength. You may in some rare cases break down their wills even; but you can never make into good soldiers men of this character. It is pitiable and miserable to think that the great machinery of the State should be employed upon breaking the will and crushing the endeavour and ideals of men who, if they were only given the opportunity of service in other channels, might be able to contribute something of real value to the life of the nation.'

Mr. Snowden followed this up with an account of what had happened to a number of conscientious objectors at Darwen in Lancashire, 'a town bordering upon the constituency which I represent':

'These men were taken to the military barracks at Preston and subjected to the grossest ill-treatment. They were treated in the most indecent manner, forcibly stripped, and marched from the barracks square, practically undressed; and after being put in uniform one of them was taken into a room and kicked round the room until his groans could be heard outside. This morning I received two letters from young fellows who had been sentenced within the last two days to terms of two years' imprisonment.'

When, however, we remember the war tension, the immense power of the military authorities with conscription, D.O.R.A., and the press censorship; when we remember also that the conscientious objector was exterminated in all the other belligerent countries of Europe, we have reason to be proud as Englishmen that so strong a feeling for liberty and the rights of conscience permeated society, and that protests so strenuous and on the whole so successful should have been raised in Parliament, in the Press, and even occasionally on the platform, against the brutalities to which I have referred.

Dr. Clifford, the eloquent leader of the Baptists, and many other Nonconformist Ministers who supported the War, expressed their indignation against all persecution of conscience; and eventually the clause to limit the right of conscientious objection to members of religious denominations, whose tenets were opposed to military service, was withdrawn and heard of no more.

The third reading of the second Military Service Bill was carried (May 16th, 1916) by 252 votes to 37, after an interesting discussion on the impaired efficiency of industry and the reduced output of essential manufactures, which was resulting from the indiscriminating recruitment of our best workmen and business men for military service.¹

Before the end of the first Coalition, whose policy was known among the advocates of a negotiated peace as the 'policy of the last man and the last farthing' (from a phrase in one of Mr. Asquith's speeches), Mr. Lloyd George coined a new expression which appealed to the jingoes at home who were shouting as they did in the Boer War for an unconditional surrender. 'The fight', he said, 'must be to a finish—to a knock-out.' He added that 'sporting terms are pretty well understood wherever English is spoken'. From that time Mr. Lloyd George, who was also known to have pressed for conscription in the Asquith Cabinet, came to be counted upon as one who could be trusted to repel all overtures from the enemy and to maintain the attitude of 'no peace by negotiation'.

It was against this attitude and against this temper of mind that the Marquess of Lansdowne directed his letters; and when the Earl of Denbigh, on May 8th, 1918, introduced a motion into the House of Lords asking the Government to suppress pacifism, Lansdowne made one of the most admirably brave and persuasive speeches ever heard in that assembly. One passage deserves quotation here:

'If there is to be no peace by negotiation, how does the noble Earl expect peace ever to come to us? Does he expect it to drop from the clouds? No; the noble Earl does not leave us in the dark. He thinks there is only one way of obtaining peace. It is by the process generally described as the "Knock-Out Blow". He and his friends never tell us how the knock-out blow is to be delivered, when it is to be delivered, and at what cost it is to be delivered; and meanwhile the war, which the noble Earl himself has

¹ Those who wish to study in detail the subject of Conscientious Objectors in Britain during the Great War should read John W. Graham's *Conscription and Conscience: a history 1916-1919*. London, George Allen & Unwin, 1922.

described as a ghastly war, which he would not himself prolong for an hour, beyond the hour at which it could be honourably ended, goes on taking its toll of the resources of this country, of the manhood of this country, adding to the number of those maimed and pathetic figures, whom we meet at every turn of the road, adding to the number of those men and women who, all over the British Empire, have had their hearts broken by the loss of those whom they most love.'

By his advocacy of a safe and honourable peace by negotiation,¹ Lord Lansdowne encouraged the growth of moderate opinion in all ranks of British society. Already in this speech he was able to quote against the knock-out blow party, President Wilson's statement: 'For myself I am ready, ready still, ready even now, to discuss a just and honest peace at any time that it is sincerely proposed.'

In view of all the events we have described, and above all of the terror which the appalling bloodshed and ruinous waste of the Great War instilled into all classes of society, it would have been surprising, nay, amazing, if opinion in Great Britain after the War had not undergone deep and far-reaching changes. Thus the idea of compulsory service, which before the War had been quite popular in the Conservative Party, became generally abhorrent, and conscription disappeared almost without a protest. In the same way, the value of a free press was more appreciated after our experiences of D.O.R.A. in war time. No doubt some of the post-war developments might have occurred even if there had been no war. In a moving and progressive society views and fashions are always changing. Long ago the world was familiar with the old fogey on whom the younger generation looked with a mixture of pity and contempt. Equally familiar was the veteran *laudator temporis acti*, who deplored the degeneracy of his younger contemporaries, and foresaw the downfall of his country in the decadence of the rising generation. After a tremendous event, such as the French or the Russian Revolution or the Great War, whose consequences in Britain we are trying to trace, social and moral changes naturally spread wider and strike deeper than those slower and more gradual movements which almost escape observation when the rivers or rivulets of national and individual life are flowing placidly along. Still, it would be a grave error to put down all the developments of opinion in Great Britain during the period

¹ For further information about Lord Lansdowne's Peace Letter see his son's article in *The Nineteenth Century*, March 1934.

following the War to the operation of this one great cause. As we shall see, many other things have happened to set going currents and cross-currents in the main stream.

But among the visible and indubitable changes there is certainly one, in this country at any rate, which we can attribute without hesitation to the workings of the Great War upon the minds, not only of the young men who survived it, but also of the younger men, born later, who have formed their opinions from what they have heard or read about it and from the economic or social consequences that encounter them at every turn. There is general agreement that the love of peace and hatred of war, which were only moderating influences before 1914 and hardly counted with our dashing and adventurous manhood when the call to arms surprised it in that year, have been replaced by a passionate indignation that such a massacre of life, such a wholesale destruction of wealth, could have been planned, or permitted, and forced to continue by a handful of statesmen and rulers without the previous assent of their innumerable victims, mostly enfranchised citizens, who were conscribed and compelled to fight in millions against other millions of individuals with whom they had no quarrel. A fierce disgust of war, especially among the young who will be called upon to fight in the next quarrel, has taken the place of milder feelings in a generation which had little or no personal experience of what modern war might mean, and rather pooh-poohed as imaginary or overdrawn the lurid forecasts of pacifist writers like Block or Norman Angell. In Great Britain the strength of the League of Nations Union¹ with its local branches, numerous speakers, and

¹ The League of Nations Union was formed in November, 1918, by an amalgamation of two Societies which already existed for the purpose of promoting a League of Nations. Viscount Grey of Fallodon became Acting President, and a strong working organization was created with Professor Gilbert Murray as Chairman of the Executive Committee. Local branches were formed all over the country by enthusiastic supporters.

The Union possesses a Royal Charter, dated October 27th, 1925, in which its three main objects are defined as follows:

(1) To secure the whole-hearted acceptance by the British people of the League of Nations as the guardian of international right, the organ of international co-operation, the final arbiter in international differences, and the supreme instrument for removing injustices which may threaten the peace of the world.

(2) To foster mutual understanding and goodwill between peoples of different countries.

(3) To advocate such a full development of the League of Nations 'as will finally liberate mankind from war and the effects of war'.

In 1932, the Union had 440,000 members paying a minimum subscription of

impressive array of eminent presidents and supporters, comprising leaders of all parties and religious sects, is in itself evidence of a feeling which pervades society. But among the younger men, and especially those of good intellect, who take part in political discussions at the universities, mere adherence to the League of Nations Union, or to other societies carrying out peace propaganda, seems wholly inadequate. They see that some leading exponents of the League of Nations contemplate resort to war as a means of enforcing its decisions and are even proclaiming that Britain must be prepared to fight for the Locarno Pact. Others prefer an economic boycott or a police force which the League can employ against aggressors. In a perhaps far-distant future the League of Nations and civilized opinion may be strong enough to prevent warlike aggression. Then, instead of merely talking about disarmament, Governments may agree to reduce their forces to a police footing, and to submit all their disputes to The Hague or to some other tribunal. In the meantime we have witnessed the spectacle of Japan violating the Kellogg Pact, and defying the League of Nations, while at the same time, despite the unparalleled burdens of growing taxation, the British Government, like other Governments, though participating in a Disarmament Conference, is increasing or maintaining enormous armaments for land, sea, and air warfare. What if these preparations should end in another explosion more devastating even than that of 1914, and what if the British Government should again declare war? Certainly among the ruling classes the theory that Great Britain 'cannot afford to stand aside' if war breaks out on the Continent is still frequently expressed, and has even been adopted by Norman Angell and several other well-known writers who opposed the War of 1914.¹

These considerations and this contingency were certainly present in the minds of those who debated and voted upon a motion at the

one shilling. Local groups and Christian congregations may become corporate members on payment of an annual minimum subscription of one pound. Meetings are held constantly all over the country. Many publications have been issued, and a journal, entitled *Headway*, is widely circulated.

The Union keeps in constant touch with the British Government, and with the League of Nations at Geneva, and has made from time to time many fruitful suggestions for the purpose of forwarding the cause of international peace and disarmament.

¹ This change of view appears in Sir Norman Angell's *From Chaos to Control* (1933), and in his revised edition (1933) of *The Great Illusion*.

celebrated Oxford Union Society¹ on Thursday, February 9th, 1933, which led to an uproar in the London sensational press, and was conveyed to foreign countries by numerous correspondents. The wording of the motion was intentionally provocative because, as the President of the Union, Mr. F. M. Hardie, a scholar of Christ Church, afterwards explained, a milder peace resolution would have evoked little or no opposition; and it would have been difficult, if not impossible, to secure an interesting debate. As it was, the motion ran: 'That this House will in no circumstances fight for its King and country.' In addition to the undergraduate speakers a Socialist philosopher and a well-known Conservative came down from London to support and oppose the motion. The attendance at the debate was unusually large and the speaking unusually good. No complaint was made at the time about the wording of the motion; but it was afterwards thought unfortunate that 'King and country' were not placed in inverted commas to make it clear that the reference was to the slogan employed in 1914 and 1915 to induce young men to volunteer for service on the Continent during the Great War. It was also pointed out that the words 'in no circumstances' would preclude volunteering for the defence of the country in case of invasion.

The chief speaker for the motion said he would translate it into realistic terms by saying 'that this House will in no circumstances commit wholesale murder on a large scale whenever the Government decides that it is its duty to do so'. He went on to show how much worse the next war would be than the last, with the ever-increasing efficiency of aeroplanes, a single bomb from which 'can poison every living thing in an area of three-quarters of a square mile'. As to modern land warfare and its horrors, 'his best friend, the man with whom he shared rooms at Oxford, had hung on barbed wire, with his entrails hanging out, for twenty-four hours, screaming to be put out of his agony'. The last war had been fought to make the world 'safe for Democracy'; it had produced a crop of military autocracies, and in most parts of Europe there was less political freedom and personal liberty than in 1913. The War, according to Mr. Lloyd George, was to make England 'a land

¹ About one undergraduate in three belongs to the Society. It is fairly representative of those undergraduates who are politically minded, and the same may be said of similar societies in most of the other Universities.

fit for heroes to live in'; but it had produced a mass of unemployment previously unknown. It had also been described as 'a war to end war', with the result that 'we are now spending forty millions more than in 1913 in preparations for the next war'.

History and experience—so ran the pacifist argument—had proved that even in representative democracies, governments could not be restrained from suddenly plunging their people into war, and forcing them to fight under terms of military servitude until a large proportion of the manhood of every nation involved had been killed or maimed for life. A rigid censorship, coupled with legislation¹ which removed the ordinary guarantees of individual freedom and security even in Great Britain, had made it almost impossible for any effective criticism of the Government and its war aims to find expression; and consequently even leading statesmen like Lord Lansdowne, who desired to bring about peace by negotiation, had difficulty in making their voices heard.

Such were the arguments and thoughts underlying the proposal for a new way to end war—that is to say, the refusal of individuals to take part in the fighting, and the adoption of passive resistance, even in the case of an invasion. One of the speakers adopted the Quaker idea of non-military resistance, saying that in such a case 'all orders given by the invaders would be systematically disobeyed; and although a few leaders would be shot, the casualties would be infinitesimal compared with those in a war'. But from what I could learn from various supporters of the motion, the general idea which prompted the voters was simply a determination on the part of the majority to express in the strongest possible terms their utter detestation of war, and to prevent it by every means in their power. In the end the motion was carried by 275 votes to 153.

As I was Librarian and President of the Society before the Boer War, and knew both it and Oxford intimately between 1892 and the opening of the Great War, I am in a position to say with certainty and without much fear of contradiction that such a resolution as this could never have been proposed, let alone passed, in that (or probably in any previous) period of the Union's history. No doubt a few Quakers could have been found to support an academic motion in favour of passive resistance; and as a rule, I think, a motion in favour of conscription or compulsory national service

¹ The Defence of the Realm Act.

would have been defeated, though the Conservative vote was usually larger than the Liberal and Socialist vote combined. But the change of psychology between 1913 and 1933, as indicated by this triumph of militant pacifism, is truly astounding, and must be ascribed entirely to the hideous sufferings of those who fought in the Great War, and the appalling consequences which it has entailed upon the new generation,¹ both in Great Britain and in other countries.

Those who framed the motion were not a little surprised at the stir which followed. Its terms were held up to national reprobation by the sensational press. Its supporters were denounced as 'foul jokers', 'sexual indeterminates', 'yellow cowards', &c., and an agitation was started in favour of expunging it from the minutes of the Society. A parcel of 275 white feathers was received by the officers. At the following meeting a small band of undergraduates marched into the debating hall and tore out the offending page. A fortnight later many ex-officers and life members of the Society revisited Oxford on March 2nd, when Lord Stanley of Alderley moved 'that the Secretary be directed to expunge from the records of the Society the motion which was carried on Thursday, 9th February'. The debating hall and gallery were packed with members, and after the President's reply, the proposal to expunge the records was rejected by 750 to 138.

The *Daily Mail*, one of the newspapers which had demanded a recantation, explained on the following day that the second vote must not be taken seriously, and that the figures merely expressed resentment against outside interference. It is quite true that young Oxford did resent the accusations of disloyalty, lack of patriotism, and cowardice which had been spread abroad by the *Daily Mail* and other newspapers. On the other hand, from what I saw and heard, I think that the Society's second vote must be taken as a strong endorsement of the Christianity and humanity of the pacifist ideal. It happened, moreover, that about this time the British National Government's representatives at Geneva were pressing for a declaration that the Powers 'hereby solemnly undertake that they will not in any circumstances resort to force for the purpose of resolving any present or future differences between

¹ The men and women leaving the Universities, however competent and well qualified, have found since the War extreme difficulty in obtaining suitable or congenial employment. These bitter experiences have made a deep impression.

them'. The Kellogg Pact was also cited by many as a proof that the Oxford motion, though unfortunately and provocatively worded, was in truth only an emphatic endorsement of the declared policy of the civilized governments of the world, and that individual refusals to fight would only occur if and when these same governments deliberately broke their solemn pact.

It should be added that the Students' Unions in London and in many other universities took up the subject and debated the Oxford Resolution. The London School of Economics, Manchester, Leicester, Cardiff, Edinburgh and a number of others carried it in most cases by large majorities;¹ but it was rejected by Birmingham and Belfast. At the Dialectic Society of Glasgow University on March 14th, 1933, a motion 'that this House is prepared to fight for King and Country' was defeated by the narrow majority of 66—568 voting for the motion and 634 against.

Soon after the second meeting at Oxford the *News-Chronicle* invited those of its readers who were of military age to discuss the question: 'Would *you* fight in the next war?' The question at the moment seemed a highly practical one; for Hitler had just become master of Germany, and the tension between Germany and Poland was acute. The French were naturally alarmed, and the situation was all the more dangerous owing to the failure of the League of Nations to restrain Japan from making war in Manchuria. People were reminded that under the Locarno Pact the British Government had undertaken to assist France or Belgium if they were attacked by Germany, or Germany if it were attacked by France or Belgium. War obligations were also, under quite conceivable contingencies, involved in membership of the League of Nations. A hot controversy arose in the columns of the *News-Chronicle*, from which one or two brief extracts may be given. Replying to the question 'shall we fight?', Mr. G. E. Crawford wrote: 'There is going to be no war, as far as we are concerned. "We" is myself and the rest of England.' Mr. L. Barnes wrote from Kentish Town that if the Premier and Foreign Secretary entered into agreements which would ultimately drag this country into another war, 'they should be forced to lead the first detachment of Britishers into action'. This recalls a definition of a statesman, which appeared in print

¹ It was afterwards carried at the Universities of Melbourne, Toronto and Capetown.

towards the end of the Great War: 'A statesman is an elderly gentleman who compels *you* to fight for *his* country.' Mr. Charles Bennett wrote from Old Charlton: 'I am not an alarmist; but there is no doubt whatever that, if we are committed to another war, revolution will break out in this country, a catastrophe which none of us want.' Sir Norman Angell argued against isolation, urging that by following counsellors who tell us to avoid all military commitments or entanglements we should bring both the League and the Disarmament Conferences to an end. On the same day (*News-Chronicle*, March 16th, 1933) Mr. Robert Bernays (an M.P.) suggested that the question 'would *you* fight again?' should not be referred to either women or old men, who would in no circumstances be called upon to fight. He added: 'My impression in listening in the House of Commons to the discussions this week on the estimates for the fighting Services is that such war talk as there is comes from men over fifty. . . . The cleavage in this House of Commons is not so much that of Party as of generation. On the question of peace the under-forties have a radically different outlook from the over-sixties.' Perhaps the most effective and moving contribution to the discussion¹ came on the same day from a well-known writer, Mr. J. L. Hodson, which may be reproduced as indicating the vast change of psychology brought about by the War in the minds of young Englishmen.

'I will not fight—

'Because Britain has been struggling for international peace ever since the war ended, and has done more than any other nation to disarm;

'Because if war begins it will be due to the deep-rooted hatreds of Continental nations with which I have nothing to do;

'Because unless we rigidly set our faces against war in any circumstances, wars will continue and civilization will perish;

'Because the only hope for the world is that enough men of all nations should say "I will not fight" and abide by it;

'Because I have no quarrel with the decent folk of all nations who are in a vast majority;

'Because war is murder and I will have no man's blood on my hands;

'Because I know what war is; and that however sure I was, persuaded by passion and propaganda, that the fight was just, and however high and noble my intentions, I should find myself destroying the beautiful and bringing sorrow and desolation into the homes of those who would wish to be friends with me;

¹ Among peace books of the year 1933 the most passionate and emotional appeal against war was Mr. Beverley Nichols's *Cry Havoc* (Jonathan Cape).

‘Because I believe unthinking patriotism to be almost a curse to mankind; and extreme nationalism nothing but madness;

‘Because 10,000,000 men were killed in the last war, untold millions more destroyed in mind or body, and the world’s wealth dissipated;

‘Because this world depression and economic war is the inevitable result of 1914–18;

‘Because I swore to myself in the trenches that I would do what I could to end war; and because I believe this is the best way to achieve that.’

A well-informed and instructive article on ‘Pacifism at the Universities’ by Mr. F. M. Hardie appeared in the *Manchester Guardian* of May 29th, 1933. In the course of this he wrote:

‘But to refuse to fight in any circumstances for your King and country may mean one of three different things. It may mean that as a complete pacifist of the Quaker type you are unwilling ever to resort to force; it may mean that as a Marxist you are unwilling to fight in an “imperialist” war but are willing to fight in a civil war between proletarians and capitalists; or it may mean that as a supporter of the League of Nations you are unwilling to fight in any “private” or national war, since such a war would be bound to be contrary to the provisions of the Covenant and the Kellogg Pact, but would be willing to fight in a “public” or League war, undertaken in order to enforce peace against a Covenant-breaking State. This last position is admirably defined in a resolution passed by a recent conference of University Liberal societies, which declares that “in the event of his Majesty’s Government engaging in war in breach of the Covenant all individuals should refrain from any form of war service, direct or indirect, humanitarian or otherwise. In the event of the Government engaging in war with a Covenant-breaking State, whether this country or some other were originally the victim of unprovoked aggression, all individuals must place their services at the disposal of his Majesty’s Government to assist the prosecution of the war, including, if necessary, direct participation in actual fighting”.’

I may add that, although neither Communism nor Fascism has made much impression on English opinion since the War, there is a good deal of academic Communism or Marxism in our universities. In 1933, for instance, the Communist Club at Oxford had some four hundred male and female members, who are said to be opposed to what they call capitalist wars, but make full use of their liberties to advocate class warfare, and profess no little admiration for the Soviet system where every form of individual liberty and freedom of thought is rigorously and brutally suppressed. Those who favour class war, while denouncing capitalist war, cannot be counted among the forces favourable to peace.

CHAPTER III

D.O.R.A. AND RESTRICTIONS ON LIBERTY

AMONG the mischievous consequences of every great war a high place must be assigned to the limitations, often amounting to suppression, which it imposes on civic rights and all forms of individual liberty, including freedom of the Press. In a modern conflict of the vast scale and desperate character of the Great War, waged not only by soldiers, airmen, and sailors, but by chemists and mechanics, and by all kinds of propaganda for the purpose of enlightening or misleading the home population and the enemy, control of the telegraph and the wireless, as well as of the postal service and all publications, is obviously indispensable. The invention of aircraft and of bombing from the air, and of submarines and torpedoes, has also made innumerable regulations necessary for the public safety and defence of the country. But while many restrictions are imperative, many are unjustifiable and undesirable. If the military authorities and a large number, perhaps the majority, of our politicians had had their way in the Great War, a control of opinion, alike in the Press, in Parliament, and on the platform, would have accompanied the control of news. But the fate of the belligerent nations on the Continent did not befall Great Britain or the United States at a later stage when America joined the Allies.¹ Views were distinguished from news. There was indeed a good deal of secret pressure, which made criticism of government policy a disagreeable and unenviable task. But British public men and writers above the military age, if they were gifted with discretion, or had enough influence to be able to defy the censorship, were not prevented from expressing their views about policy or even about strategy. Thus Lord Northcliffe was allowed in his own newspapers² to denounce the military management of the war by Lord Kitchener and by Mr. Asquith's Government; and another class of critics constantly exposed, not only the wasteful administration at home, but

¹ The *locus classicus* for the restrictions imposed upon freedom of speech and personal liberty in the United States after it joined the Allies is Professor Zechariah Chafee's comprehensive work entitled *Freedom of Speech*, London, Allen & Unwin, 1920. After reading it, I am inclined to think that criticism of the War in America was more hazardous than in England. Certainly the so-called 'Radicals' suffered much worse treatment—probably because they seemed to be more dangerous.

² Notably *The Times* and the *Daily Mail*.

also what they regarded as the futile and disastrous expeditions which frittered away the resources of the country in Gallipoli, Palestine, and elsewhere. We have seen also how a small but highly intelligent body of men in Parliament and in the Press continually criticized British diplomacy and opposed the policy of unconditional surrender by the alternative policy of peace by negotiations. Their efforts culminated in the Lansdowne movement and in the famous 'Points' of President Wilson which led to the Armistice in November 1918.

After Mr. Lloyd George's Coalition Government was established, an official attempt was made to impose further restrictions upon the expression of views. On April 19th, 1917, the Board of Trade issued an order purporting to be under the Defence of the Realm Regulations, which provided that on and after the date of the Order no person should, without a licence from the Board of Trade, publish any new periodical. In several cases also a ban was laid upon the export of newspapers, periodicals, or other literature, of which the Government disapproved. The instruments used for all these purposes were the Defence of the Realm Acts, and an infinite number of regulations made under them, which affected citizens in almost every walk of life. The original Defence of the Realm Act, which had been prepared in time of peace by the Committee of Defence and the War Department in case of emergency, was introduced into the House of Commons on Friday August 7th, 1914, and passed through all its stages without discussion. In one of the few valuable law books which deal with the subject¹ it is stated: 'the limited scope of this first enactment was indicated by the Minister's remark [the Minister was the Home Secretary] that summary courts might be needed for cases of tapping wires or attempts to blow up bridges. Yet it was from this modest beginning that there developed during the next four years, under the unprecedented conditions of war, the portly volume of nearly four hundred pages known as the Consolidated Defence of the Realm Regulations.'

¹ See *The Case of Requisition* by Leslie Scott and Alfred Hildesley, with an introduction by Sir John Simon: Oxford, Clarendon Press, 1920. This book, though it is concerned merely with a case about the Right of the Crown to take property without compensation under the Defence of the Realm Act, contains historical chapters on the history of the prerogative and the remedies of subjects against the Crown. It hardly touches, however, the important question whether D.O.R.A. for the duration of the War infringed, or superseded, or rendered inoperative and ineffectual, the Great Charter and Habeas Corpus.

A full investigation of D.O.R.A.—as the Defence of the Realm Act was nicknamed—and its consequences would involve long and laborious researches which might well be undertaken not merely on historical grounds, but to provide guidance and warning in future emergencies. But the fruits of such researches could hardly be compressed into a single volume. Consequently in this chapter I shall be content with a brief outline of the legislation and some observations upon the civil liberties which it restricted or endangered. It is a subject about which, so far as I know, very little has been written since the War, though during the war several journalists, including the late Mr. H. W. Massingham and myself, discussed it with a freedom which at the time excited, I believe, considerable surprise.¹ That so much liberty of discussion survived was due, I think, partly to the fact that there was a strong Conservative opposition during the early period of the War, which was very willing that the errors of Mr. Asquith's Liberal Government should be criticized and its failures exposed. At first, however, no objection was taken in Parliament to any measures which the Government thought necessary for securing the safety of the realm.

When the British ultimatum to Germany expired, at 11 o'clock on the night of August 4th, 1914, steps were at once taken to establish strict control over the channels of communication with other countries. Private wireless telegraphy stations were closed down. Officers of the War Office and Admiralty were placed in the buildings of the various cable companies. At first there was no co-ordination between these cable censors and a central authority. Each of the military or naval officers had to carry out as best he could the important duty of supervising private messages and messages designed for the Press. Foreign correspondence was also placed under the control of the War Department. Then, as we have already mentioned, came the first Defence of the Realm Act, introduced and carried through the House of Commons on August 7th by Mr. Reginald McKenna, the Home Secretary. At the same time Mr. Churchill, who was then first Lord of the Admiralty, announced

¹ Those who wish to pursue the subject further may turn to the pages of the *Nation* during the whole of the War, to the *Economist* from the commencement of the War to the summer of 1916, to *Common Sense* from October 1916, when it began, to 1920, and also to the *Labour Leader*. Many illustrations are also furnished by the *Manchester Guardian*, the *Westminster Gazette*, and other daily newspapers.

that the Government was establishing a Press Bureau over which Mr. F. E. Smith (afterwards Lord Birkenhead) would preside. 'From that Bureau', said Mr. Churchill, 'a steady stream of trustworthy information supplied by the War Office and the Admiralty can be given to the Press, which, without endangering military or naval interests, will serve to keep the country properly and truthfully informed from day to day of what can be told, and what is fair and reasonable. . . . It is on information of that kind that panic and unnecessary alarm can be avoided.' But even the exceptional abilities and legal knowledge of F. E. Smith (who, however, lacked experience of practical journalism) proved inadequate to the task, and the Press Bureau had a rough time. It was opened on August 11th in premises adjoining the Admiralty under the direction of F. E. Smith, assisted by his brother Harold Smith, by Sir George Riddell, a newspaper proprietor, and by six naval and six military officers. There was a room in the office from which censored news was handed out to representatives of the Press. Meanwhile, regulations were being issued under the Defence of the Realm Act. One of these (Regulation 13), issued on August 12th, seemed to go far beyond the supposed and apparent scope of the Act itself, which was designed 'to prevent persons communicating with the enemy or obtaining information for that purpose, or any purpose calculated to jeopardise the success of the operations of any of His Majesty's Forces, or to assist the enemy'.

Regulation 13 read:

'Any police constable, officer of Customs, or any other persons authorised for the purpose by the competent naval or military authority, may arrest without warrant any person whose behaviour is of such a nature as to give reasonable grounds for suspecting that he has acted, or is about to act, in a manner prejudicial to the public safety or the safety of the Realm, or upon whom may be found any article, book, letter, or other document, the possession of which gives ground for such a suspicion.'

Under the regulations a person so arrested could be tried by court martial and handed over to military custody, or legally detained until he could be dealt with in the ordinary course of law. Much wider powers were to be conferred by later Defence of the Realm Acts; but under this regulation, as the *Economist* pointed out on August 22nd, 1914, the liberties of citizens were subjected to the discretion of officers ignorant of the rules of evidence who need

only allege a suspicion and act upon it. Under this regulation conditions of martial or quasi-martial law grew up.

In the House of Commons on August 27th Mr. Asquith, the Prime Minister, defined in attractive terms the functions of the Press Bureau; but on the same day *The Times* Military Correspondent complained that the country was being kept completely in the dark regarding the recent action at Mons and that recruiting would languish if more news of the deeds of our soldiers were not forthcoming. Three days later *The Times* printed a dispatch from Amiens on the defeat and disaster which had befallen the British Army. No punishment was inflicted, but Mr. Asquith rebuked the paper for 'a very regrettable exception to the patriotic reticence of the Press as a whole'. On behalf of the Press Bureau F. E. Smith explained that the Press Bureau had not the legal power to interfere, assuming that the report was true, as he then believed it to be. Since then he had ascertained that it was grossly exaggerated and admitted 'it would have been better if I had written to the Editor asking him whether he considered it was a wise article to publish'. The dispatch had in fact been considerably altered and 'amended' in the Press Bureau and *The Times* office before its publication.

While the House of Commons was in recess (between September 18th and November 11th, 1914) F. E. Smith relinquished the directorship of the Press Bureau and was succeeded by Sir Stanley Buckmaster, the Solicitor-General. On November 11th, when the House of Commons met, Mr. Bonar Law, then Leader of the Opposition, complained of the undue concealment of news. Sir Stanley Buckmaster said, quite rightly, that the test of matters proposed for publication was whether they would afford assistance to the enemy, unduly depress the people, or imperil the national safety. He did not interfere with criticism of the Government or members of the Government 'except where such criticism is of such a character that it might destroy public confidence in the Government, which at this moment is charged with the conduct of the war, or might in any way weaken the confidence of the people in the administration of affairs, or otherwise cause distress or disturbance amongst the people in thinking their affairs were in a really serious state'. These were certainly large exceptions, which might have opened the door to an almost complete suppression of views as distinct from news. Sir Stanley Buckmaster also declared that

foreign policy ought to be subject to the censorship, and even regretted that he had not been more severe in dealing with the criticisms of some newspapers about foreign policy. As for penalties, those who committed an offence in ignorance might receive three months' imprisonment, and those who committed it with knowledge might be imprisoned for life. He added: 'I have sufficient power behind my hand to enable me to do my duty. . . . By the Defence of the Realm Act 1914 and the Order in Council, the Press becomes subject to Martial Law, and not by virtue of the constitution of my office.' His office, the Press Bureau, was really (he argued) a safeguard for the Press against the 'untempered severity of Martial Law'.

Possibly the director of the Press Bureau and the other legal advisers of the Government felt that the language of D.O.R.A. was hardly adequate to carry such vast encroachments upon the rights of citizens. At any rate a third Defence of the Realm Act, entitled A Defence of the Realm Consolidation Act, was introduced into the House of Commons on November 20th, 1914, and was read a second time on November 23rd. It was not a mere re-enactment of the two previous Acts, as its title seemed to suggest; for new clauses were added and the language of some was so vague that critics asked what limits, if any, the Ministry wished to place upon their powers. One of the new clauses prohibited action which might endanger the successful prosecution of the War. Against this Mr. Bonar Law protested, and also against the chief censor's views on criticisms of Ministers. 'I wish to make this clear protest', said Mr. Bonar Law, 'that it is the right, not only of every member of this House, but of every newspaper in this country, and of every speaker on every platform if he honestly believes a member of the Government to be incompetent, to try to get rid of that member, even though his doing so does cause a weakening of confidence in the Government that is carrying on the war.' In the absence of criticism he thought Governments, being human, tended to increase their powers and to become dictatorial. He was inclined to think the Government had exercised too great a pressure on the newspapers and said they should be most careful 'to show by their speeches as well as by their acts that they recognise the limitations of the powers given them and do not intend to interfere in any shape or form with legitimate criticism'. By this speech Mr. Bonar

Law did a real service to freedom of opinion; and on the whole it may be said that after he joined the Government, and right down to the end of the War, legitimate criticism of Ministers and of policy was not interfered with seriously. One or two phrases in the new Bill were slightly amended before it left the Commons; but there remained in it a provision that any British citizen, not amenable to military law, if found guilty of certain offences against the regulations should be arrested, tried by secret court martial, and sentenced to death without the option of trial by judge and jury. I took a copy of the Bill to a friend of mine, Earl Loreburn, an ex-Lord Chancellor, and drew his attention to the clause. He took it to another ex-Lord Chancellor, Lord Halsbury. On the last day of the Session the Bill was sent up to the House of Lords. Lord Chancellor Haldane was anxious that it should be passed at once. He was confronted, however, by determined opposition from Loreburn and Halsbury, who were supported by Lord Bryce and Lord Parmoor. After a noteworthy debate, recorded in Hansard, the Bill was allowed to pass on one condition, extorted with difficulty from the Lord Chancellor, namely, that no British citizen who was a civilian should be shot, if sentenced to death by court martial, at any time between that day and the next Session when the Act would be amended. Thus a terrorism which might have impeded or prevented all legitimate criticism by independent journalists was happily removed.

In February 1915 Sir John Simon introduced the amended Bill which provided that an accused civilian, if a British citizen, might be tried at his own option by the ordinary courts of law. The Bill was hailed as a restoration of civil liberties; but unfortunately this did not prove to be the case, and the internment of persons without trial, often on a mere suspicion of intention, went on. The leading case was that of Arthur Zadig. I was interested in it from the first, and was one of the counsel for Zadig when it went on appeal to the House of Lords.

Arthur Zadig was born at Breslau of German parents. He came to England and was naturalized in May 1905. Here he carried on business as a railway contractor. On October 15th, 1915, Sir John Simon, who had become Home Secretary, ordered him to be interned under Regulation 14 B of the Defence of the Realm Regulations. Sir John Simon's order was made 'on the recommendation

of a competent Military Authority . . . for securing the public safety and the defence of the realm'. The order was made, not on the ground of any alleged conduct imperilling the public safety, but 'in view of his hostile origin and associations'. Zadig was allowed to appear (without legal assistance) before an Advisory Committee, presided over by a judge, for the purpose of advising the Home Secretary with respect to the internment and deportation of aliens. On October 29th, 1915, Zadig appeared before the Committee; but the Committee refused to recommend that the order should be revoked or varied, and Zadig remained in detention. The case was thought to be a suitable one for testing the law, as Zadig was believed to be a harmless person besides being a British citizen. Accordingly Mr. H. W. Massingham, the editor of the *Nation*, invited subscriptions to a fund entitled Habeas Corpus Defence Fund, and lawyers were employed on behalf of Zadig. On January 11th, 1916, Counsel obtained for Zadig from the King's Bench Division of the High Court of Justice a rule *nisi* calling upon the Respondent, Sir F. L. Halliday, who was the officer in control of the interned prisoners 'to show cause why a Writ of Habeas Corpus should not issue to him to have the body of the Appellant before the Court' on the ground that Regulation 14 B of D.O.R.A. was *ultra vires*, and that the Appellant was entitled to all the rights and privileges of a British subject, and that his present internment was illegal and unwarranted by law. The rule came up for argument on January 20th, 1916, before a Divisional Court presided over by the Lord Chief Justice, afterwards the Marquess of Reading. The case for Zadig was presented on rather narrow lines. The Court of five judges held unanimously that the regulation under which the order of internment had been made was within the powers conferred on the King in Council (i.e. the Government) by the Defence of the Realm Act; and the Rule was accordingly discharged with costs. Zadig thereupon appealed to the Court of Appeal. The case was heard on February 5th, 1916, before three Lords Justices, who dismissed it with costs without calling upon Counsel for the Respondent Halliday. The judgements in the Appeal Court proceeded on the ground that the Regulation 14 B was authorized by the language of the Defence of the Realm Act which was precise, clear, and unambiguous. Lord Justice Swinfen Eady said: 'Parliament has expressed its intention in this statute with irresistible clearness.'

The Appellant had contended that the language was too wide and general for the purpose, and that the Habeas Corpus Act always had been suspended, and could only be suspended, by an express enactment. The learned judge admitted that this had always been done before, but replied that Parliament was entitled to change its own practice and that in this case it had given ample power to the executive to frame the regulations.

Mr. Massingham and his friends were not satisfied that the case for Zadig had been adequately presented, and they refused to believe that the rights of British subjects under the Magna Charta and Habeas Corpus Acts had been blown away as it were by a side wind without any express legislation. They knew that when D.O.R.A. was first introduced nothing of the kind had been contemplated; and during the whole course of the War neither Mr. Asquith nor Mr. Lloyd George nor any of their colleagues had made any such suggestion. On questions of public policy the House of Lords, which is the supreme Court of Appeal, is the tribunal in which arguments of a general character, especially where constitutional principles are involved, have most likelihood of success. The case was therefore taken to the House of Lords.

The late Mr. Llewellyn Williams, K.C., and I appeared for the Appellant. Sir F. E. Smith, K.C., the Attorney-General, Sir Gordon Hewart, K.C., the Solicitor-General, and Mr. Bransom appeared for the Respondents. The case was entitled 'The King (at the prosecution of Arthur Zadig) *versus* Halliday'. The Court consisted of Lord Chancellor Finlay, Lord Atkinson, Lord Shaw, Lord Dunedin, and Lord Wrenbury. Mr. Llewellyn Williams opened the Appeal on February 27th, 1917. The argument, as we had hoped, was conducted on much more general lines than in the Courts below. Counsel was much interrupted, and it was evident that most of the Court were against him. I could perceive, however, that Lord Shaw was friendly; for he made several encouraging and helpful suggestions. Mr. Llewellyn Williams stoutly maintained that a limited construction must be placed upon D.O.R.A., his main contention being 'that nothing shall be taken away from the liberty of the subject except by express words and by necessary implication. If no limit was placed on the statute, the law courts could be shut up, the Houses of Parliament could be shut up, and your Lordships' House could be prohibited from sitting, if in the opinion of the

Secretary of State it was for the public safety and for the Defence of the Realm.' Who, he asked, was to question the decision of the Secretary of State if the judges did not act as a check on the arbitrary powers of the executive? Towards the end of the sitting, Counsel proceeded to refer to Magna Charta; but his argument was cut short by time and the House of Lords adjourned until March 1st. On that day Mr. Llewellyn Williams was absent, having been called away to a case in Wales, and I was left to wind up the case as best I could. My practice at the Bar had been very small; I had never argued a case even before the Appeal Court, and I felt very nervous indeed. However, the Attorney-General was an old Oxford friend, and I was allowed to proceed with very little interruption. I went over the ground as well as I could, citing the Magna Charta, Coke, Selden, and other great authorities, and pressing the argument that the long-established rights of British citizens, and especially the right not to be detained and deprived of their liberty without trial, could not be abrogated without an express parliamentary enactment. When the proceedings ended the Court reserved judgement. I had made very full notes on the subject, and was much gratified when Lord Shaw, a few days afterwards, asked me to lend them to him. I thought this meant that at least one judgement would be in our favour, and I was not disappointed. The Lord Chancellor and the majority delivered judgements in favour of the Crown; but Lord Shaw, in a speech of considerable length and of much learning and eloquence, gave a dissenting judgement which caused no little stir, and exercised a very favourable influence during the remainder of the War. Not only was it hailed with great satisfaction by the Liberal and Labour Press, but a few days after its appearance, May 5th, 1917, the *Law Journal* observed: 'All lovers of the Constitution will regret the sinister judgment of the House of Lords in this Test Case (*Rex v. Halliday*) in which an extreme exercise of the powers of the Crown under the Defence of the Realm Acts was called in question. The matter at issue was nothing less than the supersession of the Great Charter itself by one of the now innumerable Regulations made on the mere motion of the Executive and of the Emergency Legislation.' The editor of this important legal periodical went on to question whether Parliament could really have meant to surrender all the safeguards of personal liberty which had been won for the people

in times not less perilous, or whether it was within the prerogative of the King and the intentions of Parliament to set aside the rule of law and to allow secret committees to authorize imprisonment without trial for no offence charged. The article continued:

‘With the exception of the leading judgment of the Lord Chancellor all the speeches of the majority in the Lords were of a more or less perfunctory character; but the proceedings were redeemed by the masterly dissenting judgment of Lord Shaw of Dunfermline, which we have the privilege of producing *in extenso* in another part of this issue. This historic pronouncement will live as an ornament in legal literature and a virile defence of judicial independence long after the present evil times have passed; and it is to be hoped that even now it may be not ineffective to rouse public attention to the dangers of the situation.’

This praise is not exaggerated; and as Lord Shaw’s judgement is not available to the general reader, I have cited it in full by way of an appendix to the present chapter as the finest exposition in modern times of the wisdom and justice of maintaining civil liberties during a great war.

Part of the *Law Journal*’s editorial comment deserves citation :

‘The prejudice imported into the case by the introduction of the topic of “hostile origin or associations”—the sole “offence” of the unfortunate appellant—was swept away by the learned lord at the outset by a reference to “the essential pact underlying naturalisation”; on the one hand submission to our laws, on the other the fullest right to their protection. But he went much further than that when, after quoting Maitland’s memorable words on the operations of the Star Chamber—“It was a court of politicians enforcing a policy, not a court of judges administering the law”—he observed that *there* was the basic danger, and that that danger exists in an especial degree whenever the law is not the same for all, but the selection of the victim is left to the plenary discretion whether of a tyrant, a committee, a bureaucracy, or any other depositary of despotic power. “Whoever administers it, this power of selection of a class and power of selection within a class is the negative of public safety or defence. It is poison to the commonwealth.” The danger is indeed one which affects all the lieges, and already large numbers of British-born citizens have been imprisoned under the arbitrary powers conferred by the impugned Regulation. The system of *lettres de cachet* has been established in our home of freedom, and the protection of the Courts against any abuse of it is now denied to all the King’s subjects.

‘No part of Lord Shaw’s judgment was more valuable than his searching investigation of the lengths to which discrimination by “Regulation” may go. If, said he, there is a power for a Secretary of State to look up a person of hostile origin or associations—without trial or chance of trial; by force

and not by process of law—because some department or official judges that course to be for public safety, why, on the same principle and in exercise of the same power, may he not be shot out of hand? The victim may be “regulated” out of his life just as well as out of his liberty, to the scaffold just as easily as to prison. The Attorney-General did not shrink from claiming that power for the Executive. Once an uncontrolled discretion over all things and persons and rights and liberties, so as to secure public safety and defence, was conceded to the Government of the day, what Regulations might they not issue? The one under discussion was founded on “hostile origin or associations.” It entered the sphere of suspicion, founded not on conduct, but on presumed opinions. “This,” said Lord Shaw, “is dangerous country; it has its dark reminders. It is the proscription, the arrest of suspects, at the will of men in power vested with a plenary discretion. . . . Vested with this power of proscription, and permitted to enter the sphere of opinion and belief, they who alone can judge as to public safety and defence may reckon a political creed their special care; and if that creed be socialism, pacifism, or republicanism, the persons holding such creeds may be regulated out of the way, although never deed was done or word uttered by them that could be charged as a crime.” Parliament would not permit it? The assumption throughout is that Parliament has permitted it, not by word, but by necessary implication; and the Courts have adjudged that all these monstrous results may follow, without judicial check or interference. Blackstone had a better appreciation of the functions of the judiciary and the practice of the Constitution when, in dealing with the securities against repeal of the Habeas Corpus Act, he treats the cases of liberty and life as tests equally of one and the same principle—the very principle which was under scrutiny in the present case:—“To bereave a man of life, or by violence to confiscate his estate, without accusation or trial, would be so gross and notorious an act of despotism as must at once convey the alarm of tyranny throughout the whole kingdom; but confinement of the person by secretly hurrying him to gaol, where his sufferings are unknown or forgotten, is a less public, a less striking, and therefore a more dangerous form of arbitrary government.” The opinion of the great Commentator still holds the field, and beside it may well be set this powerful judgment of Lord Shaw of Dunfermline, which will stand as a very armoury of arguments when Parliament itself turns its attention, as it needs soon must, to the subject.’

The trial had been a costly business; but those of us who had contributed felt that we had received good value for our money, thanks to Lord Shaw. Before taking up the case we had ascertained that Mr. Zadig was a quite harmless individual. Nothing had been alleged against him except his German birth, because there was nothing to allege. As for his alien origin, that was a disability shared by several eminent men who were taking an active part in

the Government and in the business affairs of the nation. Lord Milner himself had been born and educated in Germany, but that had not prevented Mr. Lloyd George from making him a member of the War Cabinet. In view of all that had been said in the Courts about dangerous persons, the Zadig case had a rather comic ending. About a fortnight afterwards, as I was sitting in my office, Mr. Zadig was announced. He came in to tell me that he had been released from custody and to thank me for what I had done on his behalf.

On the whole, when I look back at the War and recall the long struggle for civil rights and freedom of speech during those desperate and heart-rending times, when everything we cared for was at stake and we saw that our country was being involved in general ruin, I feel that Englishmen may reflect with some pride and satisfaction on the way in which, and the extent to which, the traditions of freedom were maintained. It is true that for a time hundreds of conscientious objectors were subjected to harsh and even cruel treatment; but in spite of conscription the rights of conscience were respected by the Administration. It is true that several of the newspapers which criticized the policy of the last man and the last farthing and of the knock-out blow, were forbidden to circulate outside the country. It is true that on one occasion the offices of the *Labour Leader* were raided. But on the whole the rights of legitimate criticism were not severely restricted. Though *The Times* refused to publish Lord Lansdowne's letter it was printed by the *Daily Telegraph*, and I feel sure that there were few intelligent citizens in the country who did not read it. No one who turns to the leading articles of the *Manchester Guardian*, the *Nation*, the *Labour Leader*, or *Common Sense* can doubt that the views of a minority were vigorously supported and clearly expressed. And when the War was over most of the encroachments upon Liberty and a vast mass of controls and regulations were removed as rapidly perhaps as could have been anticipated.

Precisely when D.O.R.A. expired is still a vexed question, partly because in various distant theatres military operations dragged on. Thus the Emergency Laws Continuance Act of 1920 provided: 'Whereas the Defence of the Realm Regulations will expire at the termination of the present war, and it is expedient that certain of these Regulations should continue in force thereafter,' &c., &c. It seems to be generally held that D.O.R.A. expired on August 31st,

1920; but there was evidently some doubt on the matter, for in the Statute Law Revision Act of 1927 the Defence of the Realm Act was repealed along with other war legislation which had become obsolete. Moreover, some few of the D.O.R.A. Regulations, including certain restrictions on the sale of liquor have been embodied in later statutes. Legislation relating to the immigration of aliens may also be regarded as a relic of the War.

In the interval between the Armistice (November 11th, 1918) and the signing of the Peace in the Hall of Mirrors at Versailles on June 28th, 1919, the bureaucracy, which had extended itself and multiplied during the War, was naturally anxious to retain in peace as many of the controls over the external and internal trade of the country as possible. Many lucrative posts and comfortable jobs were involved; and the necessary work of clearing away encumbrances on business and of disentangling the vast rolls of red tape, in which so many trade transactions were still involved, was all the more difficult for the Government because these measures would dislodge from their temporary offices many friends and faithful adherents. It would be tedious to describe the process of liquidation—how this or that control was gradually reduced and ultimately abolished, how the ordinary departments of Government were enlarged¹ to accommodate supernumeraries of War Ministries which had to be abolished, and so on. But there was one department of activity whose continued operations excited much exasperation and a growing volume of protest from the business community, though it was zealously defended by the privileged manufacturers and importing merchants, who profited by its existence. During the War, the Board of Trade had contrived an intricate system of embargoes and licences on imports. These were continued after the suspension of hostilities, and it was generally supposed that they were authorized by D.O.R.A. But when we looked into the matter and began to consult legal authorities, we came to the conclusion that the whole system of licensing or prohibiting imports, and of restricting them by quotas ('rationing') was unlawful, and that after the conclusion of the peace, there was no ground whatever for its continuance. An Anti-Embargo League was formed, and voluntary subscriptions were received for the purpose of contesting the validity of these embargoes and licences in the courts. In July

¹ Hence the swollen and redundant staffs of the post-war Civil Service.

1919 meetings in the City of London and Manchester were addressed by Sir John Simon, who questioned the right of Sir Auckland Geddes, the President of the Board of Trade, to impose, at his discretion, quotas on imports, or to give one man a licence to import certain quantities of certain articles, while refusing the same lucrative privilege to another. By this time, Sir John Simon had discovered that the Board of Trade claimed its powers, not under D.O.R.A., but under a section of an old Customs Act passed in 1876, which referred to munitions of war. He admitted that the War had made it necessary to set up many obstructions to trade; but that was no reason for continuing them, and he described the list of embargoes which had just been published as one of the most remarkable since the catalogue of ships in Homer.¹ He continued:

‘The powers which the Board of Trade now claim to exercise are not based on any Emergency Statute or War Statute. D.O.R.A. has got nothing to do with this. The justification, if justification there be, for this sheaf of prohibitions is not to be found in our war legislation, and it does not pretend to be. It is to be found in a Statute which is part of the permanent law of the land, which was made in the year 1876; and if therefore what is now happening is lawful at all, it could be done without the consent of Parliament at any time, to any extent, and without any regard as to whether conditions of trade had been interfered with by war or not. That is a proposition which would have greatly surprised any constitutional lawyer in the past and one which I find it difficult to believe any competent authority would seriously maintain.’

In the list published by the Board of Trade were hundreds of goods, including food, raw materials, clothing, tools, machinery, and manufactured articles, with notes as to the ‘extent to which licences will be issued’. Thus, women’s apparel was only 25 per cent. of the 1916 imports. Stationery and tools were one-third of 1916 imports. Needles were licensed on recommendation of ‘the Hosiery Needle Committee’. Bacon was licensed on the recommendation of the Ministry of Food. Furniture was 50 per cent. of 1916 imports. In a note on this list, which I published at the time,

¹ A ‘Consolidated List of Import Restrictions’ (revised to date) was published by the Board of Trade in the *Board of Trade Journal*, July 31st, 1919. Part II contained a ‘List of Articles which may not be imported without licence from the Department of Import Restrictions’. On August 9th, *Common Sense* described it as ‘the worst new tariff that has been introduced into this country for a century’. Sir Auckland Geddes, as President of the Board of Trade, was responsible for the Embargoes, and consequently, when the Government surrendered, its capitulation was described as ‘The Fall of Geddesburg’.

I wrote: 'It is not only unlawful, but in every respect irregular. It is altered day by day and week by week to the advantage or disadvantage of somebody or everybody. It is a tariff, and yet not a tariff; for it produces no revenue to the State, though it fills the pockets and swells the profits of individuals at the expense of the whole community. You can hardly find a large shop which is not selling numbers of articles at a higher price than they will fetch but for these embargoes, restrictions and licences.'

By this time the system was doomed. A number of leading business men had taken steps to challenge its validity in the courts of law. As one who took an active part in the movement, I well remember our triumph when the Government threw up the sponge, after a letter from Sir John Simon on August 16th (printed at the end of this chapter), in which he informed the Solicitor of the Board of Trade of his intention to import from Spain certain articles which were prohibited, or only permitted by licence. Thereupon the whole edifice suddenly collapsed. Two days later, Mr. Lloyd George, in the course of a long speech in the House of Commons, announced that the licensing system would be abandoned immediately. Evidently the legal advisers of the Government had become aware that there was no statutory authority for the practices of the Board of Trade, and that the Courts of Law, which were no longer animated or dominated by considerations of public safety in war time, would almost certainly condemn them when a test case came up for judgement. Thus, about nine months after the cessation of the Great War and two months after the Peace of Versailles, the commerce of Great Britain was released from most of the shackles which had been imposed upon it by bureaucratic discretion working under war-time regulations with administrative orders.

APPENDIX I

THE LIBERTY OF THE SUBJECT

JUDGMENTS IN THE HOUSE OF LORDS

From the *Law Journal*, May 5, 1917

JUDGMENT was given by the House of Lords on Tuesday in *The King (at the Prosecution of Arthur Zadig) v. Sir Frederick Loch Halliday*, in which the appellant, Arthur Zadig, appealed from the decision given by the Court of Appeal (Swinfen Eady, Pickford, and Bankes, L.L.J.) on February 9, 1916, affirming the judgment delivered by the Divisional Court (Reading, L.C.J., and Lawrence, Rowlatt, Atkin, and Low, J.J.) on January 20, 1916, holding that Regulation 14B of the Consolidated Defence of the Realm Regulations, under which an order for the internment of the appellant was made, was not, as he contended, *ultra vires*.

Llewelyn Williams, K.C., and *F. W. Hirst* for the appellant; the *Attorney-General (Sir Frederick Smith, K.C.)*, the *Solicitor-General (Sir Gordon Hewart, K.C.)*, and *G. A. H. Branson* for the respondent, the commandant of the internment camp.

The Lord Chancellor's Judgment

THE LORD CHANCELLOR, in the course of his judgment, said that it was beyond dispute that Parliament had power to authorize the making of such a Regulation. The only question was whether upon a true construction of the Act it had done so. It was contended (1) that some limitation must be put upon the general words of the statute; (2) that there was no provision for imprisonment without trial; (3) that the provision made by the Defence of the Realm Act, 1915, for the trial of British subjects by a civil Court with a jury strengthened the contention of the appellant; (4) that general words in a statute could not take away the vested rights of the subject or alter the fundamental law of the Constitution; (5) that the statute was in its nature penal and must be strictly construed; (6) that a construction said to be repugnant to the constitutional traditions of this country could not be adopted. Reference was made by the appellant's counsel to the history of the various interferences with a right to *habeas corpus* in times of public danger, and it was urged that if it had been intended to interfere with personal liberty that was the course which would have been adopted. His Lordship was unable to accede to any of the arguments urged on behalf of the appellant. It was not, as he understood the argument, contended that the words of the statute were not wide enough in their natural meaning to authorize such a Regulation as Regulation 14B, but it was strongly contended that some limitation must be put on these words, as an unrestricted interpretation might involve extremest consequences, such as the infliction of the punishment of death without trial. It appeared to be a sufficient answer to that argument that it might be necessary in a time of great public

danger to entrust great powers to his Majesty in Council, and that Parliament might do so, feeling certain that such powers would be reasonably exercised. It was urged that if the Legislature had intended to interfere with personal liberty it would have provided, as on previous occasions of national danger, for suspension of the rights of the subject as to a writ of *habeas corpus*. The answer was simple. The Legislature had selected another way of achieving the same purposes, probably milder as well as more effectual than those adopted on the occasion of previous wars. The suggested rule as to construing penal statutes and the provision as to trial of British subjects by jury, made by the Defence of the Realm Act, 1915, had no relevance in dealing with an executive measure by way of preventing a public danger.

LORD DUNEDIN, LORD ATKINSON, and LORD WRENBURY read judgments agreeing with that of the Lord Chancellor, and the appeal was dismissed, LORD SHAW OF DUNFERMLINE dissenting.

Judgment of Lord Shaw

I reckon this appeal to be in the first class of importance. My opinion differs from that of your Lordships, and this has led me to consider and reconsider the matter with care. The gravity of the issue, and the respect which I entertain for my noble and learned friends here and for the learned Judges of the Courts below, with all of whom I am constrained to differ—these appear to me to demand a statement, fuller than usual, of the grounds of my own position.

I am of opinion that the judgments appealed from are erroneous in law, and that they constitute a suspension and a breach of those fundamental constitutional rights which are protective of British liberty.

The Appellant is a naturalised citizen of this country. That is to say, on the one hand he owes submission to, and on the other he is entitled to the protection of our laws. That is the essential pact underlying naturalisation. His person was seized, he has been interned—now for over 18 months—without a trial, and he has just the same title, no more and no less, to challenge such an act of force as any subject of the King. This makes the question not only serious, but perfectly general.

The Appellant lost his liberty and was interned by reason of a document dated 15th October, 1915, signed by the Home Secretary of the day and denominated an ‘Order under Regulation 14B of the Defence of the Realm Regulations’.

After quoting the terms of the Order, Lord Shaw proceeded:

This order stands or falls with the Regulation upon which it purports to be founded. The Appellant falls within the ambit of its terms: he is of foreign origin. The true question affects the validity of the Regulation itself.

An Unauthorised Regulation

I am clearly of opinion that, although bearing to be a Regulation, this is, in truth and essentially, not a Regulation at all, and that it was *ultra vires*

of His Majesty in Council to issue under the guise of a Regulation an authorisation for the apprehension, seizure, and internment without trial of any of the lieges. In my view Parliament never sanctioned, either in intention or by reason of the Statutory words employed in the Defence of the Realm Acts, such a violent exercise of arbitrary power. It follows that the order or fiat of the Secretary of State which has already been quoted is also *ultra vires*.

It is to be at once observed that one provision of the Regulation can have no application to the case of internment. That provision is that if the person in respect of whom any order is made fails to comply 'he shall be guilty of an offence against the Regulations'. This is the homage paid to the Act of Parliament. But to a person seized and interned under this order of internment the language has no application. The Appellant has not been guilty of any offence against the Regulation; there is nothing for which to try him as an offender against it. No charge is made against him; he may appeal for that in vain. He has complied with the Regulations, in the sense that he has been its victim. If he had violated it in any particular he would have had his right to trial; but his case is hopeless in that regard; for his person has been seized and detained for something entirely apart from any crime or offence or from anything he has said or done or attempted. The Secretary of State's fiat has gone forth. It is one of proscription. 'Where,' says Regulation 14B, . . . 'it appears to the Secretary of State that for securing the public safety or the defence of the realm it is expedient, in view of the hostile origin or associations of any person,' that he may, *inter alia*, issue an order of internment.

My Lords, the Act of Parliament, as we shall see, does employ the words 'for securing the public safety and the defence of the realm', but there is not one word in the Act of Parliament about 'hostile origin or associations' of any person, nor indeed about internment. These are not statutory terms. Parliament might very well have taken the subject of 'hostile origin or associations' into its account; and Parliament might very well have considered the subject of internment and dealt with it. Had it done so, Courts of Law would have been bound to comply with any verdict on the subject which it embodied in statute.

Accordingly, the first great and broad fact confronting your Lordships in this case is that in a matter so fundamentally affecting the rights of His Majesty's subjects Parliament has given no express sanction for the introduction of that language 'hostile origin or associations'. And what remains is the argument that Parliament, not expressly dealing with a matter pre-eminently demanding careful delimitation, must be held to have accomplished by implication this far-reaching subversion of our liberties. To this argument I am respectfully unable to accede. I do not think that the Defence of the Realm Acts can be submitted to such a violent and strained construction.

My Lords, after the outbreak of war on 4th August, 1914, it is plain from the Statute Book that Parliament was much engrossed in the subject of

national security and defence. And I think it may be expedient to notice that the Act founded on 5 George V., cap. 8, is one of a series of four Statutes passed in the period August, 1914, to March, 1915, and to observe that useful light is obtained by looking at them together.

Parliament and Public Safety

My Lords, the scheme of these Statutes was that Regulations were to be issued as to the powers and duties of the Admiralty, Army Council and Armed Services, and of other persons acting for His Majesty for securing the public safety and the defence of the realm. The assumption is that such powers and duties already exist; but that they may be helped, made specific, or, it may be, amplified by Regulations. The caution, however, is instantly given as to preserving the rights and liberties of the subject. A trial by court-martial is prescribed and a punishment in respect of contravention of the Regulation 'in like manner as if such persons were subject to military law' and had offended against Section 5 of the Army Act. In short, the object was twofold—(1) to draw up or make clear for the citizen a certain line of duty or course of conduct by the issue of a notification according to which that duty and conduct shall be regulated, and (2) to append the sanction of punishment to disobedience to such regulation. In no other sense, I am convinced, is 'regulation' here meant. In this sense it is intelligible and apt. This is particularly clear in these two first Acts. The repositories of the power were various, extending to the humblest member of 'His Majesty's forces'. For them, as for the citizen at large, it was important that in the emergency of war their special duties should be named—as to what should be done or be avoided; failure or disobedience on the part of the citizen to be ranked as an offence, and an offence to be tried in ways prescribed and punishment to follow. It is not very likely—I suggest this very humbly—that either Parliament itself or the repositories of the power—say the soldier or the sailor—would have ever dreamed that, so far at least as these Acts go, they vested these various authorities, high or humble, with power to suspend the liberties of the citizen or visit him at the official's own hand with punishment before he had been convicted as an offender. If any officer of His Majesty's service or other servant of His Majesty had acted in this overbearing and arbitrary manner the law would very quickly have overtaken such a transgression. The word 'regulation' or the words 'for securing the public safety and the defence of the realm', would have been an ineffective cover to him for such an act of violence. To take the simplest case—viz., that of a soldier or sailor or other servant of the Crown—it would have been at once seen that not only private liberty but public order would be imperilled if, under the excuse that the violent action of seizure of the person of a citizen for no offence and without either trial or opportunity of trial, though not falling within the ordinary scope of his powers and duties under the law, was yet justified by the words 'for the public safety and the defence of the realm'. The law and the Government of the day would have sharply stopped such an inversion and invasion of right, and have limited

the action of the delinquent officer to the procedure hitherto known to the law or prescribed by the Statute itself.

The Defence of the Realm Acts

It remains to be seen whether the words as to public safety and defence have any other or larger meaning in the principal Act, 5 George V., cap. 8, which bears the title of 'An Act to Consolidate and Amend the Defence of the Realm Acts'—those two Acts, namely, to whose provisions I have ventured to call pointed attention. Those Acts are repealed, but their provisions, shifted about, reappear in the consolidation. Every part of Section 1 of the Act appears to me to be relevant to the problems which the House has to solve. I say this expressly, for I think that the controversy was unduly limited to Sub-section (1).

The provisions of this sub-section will be presently analysed; but sufficient has already been shown to enable the House to affirm that it is a reproduction, with additions, of the earlier short Acts, and that a further enumeration is given of the things for which regulations are designed, and the breach of which will constitute offences. Sub-sections (2) and (3) deal with the acquisition of users of land, factories, or workshops required for Government purposes. Then occur Sub-sections (4), (5), and (6). They are in these terms:—

'(4) For the purposes of the trial of a person for an offence under the regulations by court-martial and the punishment thereof, the person may be proceeded against and dealt with as if he were a person subject to military law and had on active service committed an offence under Section five of the Army Act:

'Provided that where it is proved that the offence is committed with the intention of assisting the enemy a person convicted of such an offence by a court-martial shall be liable to suffer death.

'(5) For the purpose of the trial of a person for an offence under the regulations by a court of summary jurisdiction and the punishment thereof, the offence shall be deemed to have been committed either at the place in which the same actually was committed or in any place in which the offender may be, and the maximum penalty which may be inflicted shall be imprisonment with or without hard labour for a term of six months or a fine of one hundred pounds, or both such imprisonment and fine; Section seventeen of the Summary Jurisdiction Act, 1879, shall not apply to charges of offences against the regulations, but any person aggrieved by a conviction of a court of summary jurisdiction may appeal in England to a court of quarter sessions, and in Scotland under and in terms of the Summary Jurisdiction (Scotland) Acts, and in Ireland in manner provided by the Summary Jurisdiction (Ireland) Acts.

'(6) The regulations may authorise a court-martial or court of summary jurisdiction, in addition to any other punishment, to order the forfeiture of any goods in respect of which an offence against the regulations has been committed.'

My Lords, it is not too much to say that so far as Parliament was concerned its intentions were directed anxiously to providing for the prompt and correct treatment according to law of the case of offenders against the regulations. Meticulous regard is paid to proceeding under the Act according to justice; provision is carefully made for trial; and, while promptitude is desired, it becomes clear beyond doubt that the right of the subject to trial in accordance with law shall be guarded and preserved.

Trial by Jury

One other striking feature of the legislation makes this intention on the part of Parliament luminously clear. It is the passing in a few months' time—viz., on 16th March, 1915—of the Amendment Act, 5 George V., cap. 34. The trial of offenders is again anxiously handled, and in the same spirit—protection of the rights and liberties of the subject. To make sure of that beyond doubt, an offender against the regulations may, instead of being tried by court martial, be tried by a civil court with a jury. Section 1 (2) is of particular importance. It provides:—

‘Where a person, being a British subject but not being a person subject to the Naval Discipline Act or to military law, is alleged to be guilty of an offence against any regulations made under the Defence of the Realm Consolidation Act, 1914, he shall be entitled, within six clear days from the time when the general nature of the charge is communicated to him, to claim to be tried by a civil court with a jury instead of being tried by court-martial, and where such a claim is made in manner provided by regulations under the last-mentioned Act the offender shall not be tried by court-martial:

‘Provided that this Sub-section shall not apply where the offender is tried before a court of summary jurisdiction:

‘Provided also that before the trial of any person to whom this Section applies, and as soon as practicable after arrest, the general nature of the charge shall be communicated to him in writing and notice in writing shall at the same time be given, in a form provided by regulations under the said Act, of his rights under this Section.’

I ask myself what language could be more significant, more scrupulously careful of liberty than this, that on demand of the person arrested he may be tried by jury, that as soon as practicable after arrest he is to be informed of the nature of the charge against him and of all his rights under the section. To all which the reply is made: but all that scrupulous regard for liberty and the forms of trial and law are of no avail to any class of His Majesty's subjects against whom a ‘regulation’ of internment has gone forth. If a British citizen be seized under such a fiat, it is not because he has offended against a regulation—not at all. He has, therefore, no rights to be informed of any charge against him. Charge against him there is none. Trial—he cannot choose its form; his rights are gone without trial. A ‘regulation’ has gone forth against him. He has been ‘regulated’ out of his liberty and out of every protection of the kind. He must be a passive victim.

The Issuing of Regulations

The few words founded on here and in the Courts below in support of this supereminent and overriding power have accordingly to be examined. Enough has been said to show that if they bear the construction contended for by the Crown they are singularly at variance with that intention to pay scrupulous regard to private right which is so plain from the scheme and language of these defence Acts as a whole. These are the words:—‘His Majesty in Council has power during the continuance of the present war to issue regulations for securing the public safety and the defence of the realm, and as to the powers and duties for that purpose of the Admiralty,’ &c., &c. A change has occurred in this Consolidation and Amendment Act—not in the important words, but in their allocation. The important words referred to are ‘for securing the public safety and the defence of the realm’. In the earlier Acts the regulations were to be ‘as to the powers and duties of the Admiralty’, &c., . . . ‘for securing the public safety and the defence of the realm’. Now the Regulations issue direct from the King in Council. It is perfectly plain to me how this occurred. The later details of the section show that Regulations as to the powers of officers or individuals might cover ground beyond the province of those departments or persons. For example, the Board of Trade, the Post Office, or the Foreign Office might well be concerned in or in the carrying out of many of these details. And so the shortest and most comprehensive method was taken, namely, of transferring the general topic dealt with in Regulations to the Government of the day—all the rest remaining in substance as before. It is, in my view, largely owing to this simple change, however, and from the collocation in which the words now stand that the Courts below have come to their conclusion.

Executive Power and Individual Rights

From that conclusion positively stupendous results follow. The words, it is said, are perfectly general; the King in Council is vested with powers to judge of what is for the public safety and the defence of the realm, and to act accordingly. All the rest of those Statutes as to trial, intimation, notification of rights; every provision for the legal disposal of the question affecting liberty—all this is on one side, the side of offence against a Regulation: on the other side stands this supereminent power of the Government of the day. In the exercise of that power the plainest teachings of history and dictates of justice demand that, on the one hand, Government power, and on the other individual rights—these two—shall face each other as party and party. But it is not so, so it is said; here the Government as a party shall act at its own hand; the subject as a party shall submit and shall not be heard; the Government is at once to be party, judge, and executioner. When, so is the logic of the argument, Parliament took elaborate pains to make a legal course and legal remedy plain to the subject as to all the regulations which were stated in detail, there was one thing which Parliament did not disclose, but left Courts of Law to imply—viz., that Parliament, all the time and

intentionally, left another deadly weapon in the hands of the Government of the day under which the remainder of those very Acts, not to speak of the entire body of the laws of these islands protective of liberty, would be avoided. As occasion served the Government of the day, despotic force could be wielded, and that whole fabric of protection be gone. My Lords, I do not believe Parliament ever intended anything of the kind. We are not in the region of subtlety or obliquity. Holding the views I do of this Parliamentary transaction, and forming these from the language employed, I cannot attribute to the Legislature the intention alleged.

I proceed from the collocation, and the manner in which that collocation was achieved, to consider the words themselves. There are two views of them. The one favours complete generality: this has been accepted by the Courts, and to that and its importance I have just alluded. On the contrary, I humbly think it impossible to look at the Statute as a whole without seeing that the whole structure must stand together, that the power in the Government to issue Regulations is—within the general sphere and purpose of public safety and defence—to prescribe a line of duty and course of action for the citizens so as, in this time of emergency, to bring their private conduct into co-operation for that general end. This and this alone is what ‘Regulation’ means: it constitutes *pro tanto* a code of conduct: in following the code the citizen will be safe: in violating it, the citizen will become an offender and may be charged and tried summarily, or by a court-martial or a jury, and as for a felony. This is perfectly simple: it squares with all the rest of the legislation and destroys none of it. It sacrifices no constitutional principle: it introduces nothing of the nature of arbitrary condemnation or punishment: the Acts become a help and guide as well as a warning to the lieges.

The Royal Prerogative

I have now described and dealt with the origin and collocation of the important words of the Statute falling to be construed, and have stated the construction of these words, which appears to my mind to be so plain. But I am called upon both by respect and duty to enquire—and this very anxiously—into that other view of the case which has been upheld by judicial pronouncement. The case is decided not upon specialty, but upon principle, and how far-reaching that principle is will presently be seen. It is well to gather up the things about which there can be no dispute. The power to issue Regulation for the public safety and for the defence of the realm is vested by the Act in His Majesty in Council. In the course of the discussion this was incidentally alluded to in connexion with the Royal Prerogative. My Lords, it has nothing to do with the Royal Prerogative. If once again, and ever so slightly, that Prerogative gets into association with Executive acts done apart from clear Parliamentary authority, it will be an evil day: that way lies revolution. Do not let the thing which has been done—in my opinion a violent thing—be associated for one moment, or at any point be said to be supported, by Royal Prerogative. Its validity

depends upon the Act of Parliament alone. The form, in modern times, of using the Privy Council as the channel of executive for statutory power, is measured, and must be measured strictly, by the ambit of the legislative pronouncement. And that channel itself, seeing that under the Constitution His Majesty acts only through his Ministers, is simply the Government of the day. The author of the power is Parliament: the wielder of it is the Government. Whether the Government has exceeded the statutory mandate is a question of *ultra* or *intra vires* such as that which is now being tried. In so far as the mandate has been exceeded, there lurk the elements of a transition to arbitrary government and therein of grave constitutional and public danger. The increasing crush of legislative efforts, and the convenience to the Executive of a refuge to the device of Orders in Council, would increase that danger tenfold were the judiciary to approach any such action of the Government in a spirit of compliance rather than of independent scrutiny. That way also would lie public unrest and public peril. On all this there is no disputing. This reduces to comparative unimportance those apparent safeguards derived not from the Act of Parliament, but inserted into the 'Regulations' themselves. The language of the Regulation, for instance, 'where it appears to the Secretary of State' and 'on the recommendation of a competent naval or military authority' is simply equivalent to a declaration that the delegate, to judge and issue, is one department of Government and that that will, of course, act in accord with, and on the recommendation of, those other departments who are presumably versed in the situation. The Government remains master. And a proviso is made for due consideration by an advisory committee of any representations against the order, but it was frankly admitted that the Secretary of State is not bound to comply with the advice received; he may do as he likes; again the Government is master.

Government Power 'During the War'

As these considerations are revolved the importance of the issue for liberty does not wane. The interpretation put upon this Government power to issue Regulations for safety and defence is that of perfect generality. Is this generality limited? it was asked. Yes, replied the Crown: the limitations are two, and two only. In the first place, they can only be issued during the war—a limitation in time. In the second place, they can only be issued for the public safety and for the defence of the realm—a limitation of purpose. But who is to judge of that purpose? As to what acts of State are promotive or regardful of that purpose, can a Court of Law arrest the hand of a responsible Executive? Extreme cases may be figured in which personal caprice and not public considerations might be imagined, but in everything from the lighting of a room to the devastation of a province, no Court of Law could dare to set up its judgment on the merits of an issue—a public and political issue—of safety or defence. So that this limitation, as a legal limitation, is illusory. The only one that remains is that of time. 'During the war' the Government has been allowed at its own hand to do anything

it likes. 'Regulation' covers all: the issue of decrees, arrests, proscription, imprisonment, internment, exile,—all are covered comprehensively by the word 'Regulations'. Such an issue is made on grounds which are not in the region of law; Judges are not fitted to interpose on these; a judgment, nay, possibly even a comment upon them, would besmire the Bench. That course which alone is safe is: leave the domain of public need or claim or advantage to the undisturbed possession of Parliament and its delegates. I accordingly agree that a plea put forward by a subject against a Government, grounded upon an appeal to Courts of Law as to public requirements, would be unavailing in the region of *ultra vires*. Once the overmastering generality of the principle of Regulation be affirmed, as has been done, all is lost; the law itself is overmastered. The only law remaining is that which the Bench must accept from the mouth of the Government:—'*Hoc volo, sic jubeo; sit pro ratione voluntas.*'

I have already suggested that 'Regulation' means something much more limited—as I think much more reasonable—and certainly more in accordance with the ordinary meaning of the word, than all this. Regulation means, as I have ventured to set forth, the formulation of rules in the interests of public safety or defence—rules of action, behaviour, and conduct—in obedience to which the citizens may co-operate for these ends, and for disobedience to which they may be punished. But the Regulation now challenged is not of that character. It is not the formulation of a rule of action, behaviour or conduct to be obeyed by the citizen; but it is for the summary arrest and detention of his person, grounded, and grounded alone, on the subject's hostile origin or association. The one or the other might, it is to be presumed in the Government's favour, form a motive, a temptation, a spring, all in a region incapable of proof but prolific in suspicion, for something inimical to public safety or defence. The subject may never have dreamed of such inimical conduct: he may be ardently attached to this country's interests and cause; or he may not. Let the power go forth though it may involve the innocent with the guilty, and in such a way that that issue of innocence or guilt can never be determined: let the public end sanctify, as may be the case, this private wrong: the generality of a power to issue a Regulation covers the case: it is *intra vires*.

'Inter Arma Silent Leges'

We shall have to consider in a little while how much on this principle of generality—this principle that during the war the Government may do what it likes—how much is repealed. Let us pursue the inquiry as to how much the power embraces. Against Regulations, in their generality, as thus construed, nothing can stand. No rights, be they as ancient as Magna Charta; no laws, be they as deep as the foundations of the Constitution: all are swept aside by the generality of the power vested in the Executive to issue 'Regulations'. '*Inter arma silent leges.*' I observe that this is supported by the following argument—viz., that the provisions of the section embrace two parts—viz., prevention and punishment: that these

are two separate things: and that what has been done here is prevention and is not punishment. This last may sufficiently surprise those who are subjected to it; but 'stone walls do not a prison make'. They are being cared for, watched over, prevented, not punished. Very different, and very properly different, from this was the view of Blackstone (Commentaries I., 1): 'The confinement of the person in any wise is an imprisonment. So that the keeping a man against his will in a private house, putting him in the stocks, arresting or forcibly detaining him in the street, is an imprisonment.'

Further, my Lords, I am humbly of opinion that the attempted distinction fails; and that in no event could it have the slightest bearing upon the point of construction to be determined. For it is when, and only when the section comes to categorise the heads and particulars of public safety and defence to which the Regulations might be directed that the word 'prevent' occurs. The Regulations are for preventing certain things and for securing other things—for preventing (1) communication with the enemy, (2) spreading false reports, &c., and (3) assisting the enemy; and for securing (1) safety of forces, ships, railways, or harbours, (2) navigation according to Admiralty direction. This is the distinction—if it be a distinction—viz., between preventing and securing. But when punishment is dealt with such a distinction no longer holds; and if there be disobedience to Regulation upon all or any one of these heads and particulars, whether for preventing danger or securing safety, then punishment may follow. The Statute is careful to prescribe punishment for all. Punishment is not distinguished from either preventing or securing; it applies to disobedience or offence under both the latter heads alike. How then, I respectfully ask, how then can it be thought possible to construe the section as meaning not only the grant of a power of prevention from doing certain things, which done shall be punishable, but the reserve of some other and supereminent power of prevention, which is distinguished from punishment? There is no such reserve and no such distinction in the Act of Parliament. There might have been; but there is not; and the fact that this is so is a strong confirmation of the view that Parliament never intended the vesting of the Executive with arbitrary power, but gave power to set up a code of conduct and action and to reach the region of punishment when, and only when, that code was broken.

'A Committee of Public Safety'

I pursue the consideration of the question how much the principle of generality, thus defended, embraces. Having limited the principle in the matter of time, and there being no other limitation, let us see what Government may do under this head of 'Regulation', and start with the one in hand. It is, 'in view of the hostile origin or associations' of any person, to intern him without trial or chance of trial; by force, and not by process of law. But does the principle, or does it not, embrace a power not over liberty alone, but also over life? If the public safety and defence warrant the Government under the Act to incarcerate a citizen without trial, do they

stop at that, or do they warrant his execution without trial? If there is a power to lock up a person of hostile origin and associations because the Government judges that course to be for public safety and defence, why, on the same principle and in exercise of the same power, may he not be shot out of hand? I put the point to the learned Attorney-General, and obtained from him no further answer than that the graver result seemed to be perfectly logical. I think it is. The cases are by no means hard to figure in which a Government in a time of unrest, and moved by a sense of duty, assisted, it may be, by a gust of popular fury, might issue a regulation applying, as here, to persons of hostile origin or association, saying, 'Let such danger be ended and done with; let such suspects be shot.' The defence would be, I humbly think, exactly that principle, and no other, on which the judgments of the Courts below is founded—viz., that during the war this power to issue Regulations is so vast that it covers all acts which, though they subvert the ordinary fundamental and constitutional rights, are in the Government's view directed towards the general aim of public safety or defence.

Under this the Government becomes a Committee of Public Safety. But its powers as such are far more arbitrary than those of the most famous Committee of Public Safety known to history. It preserved a form of trial, of evidence, of interrogations. And the very homage which it paid to law discovered the odium of its procedure to the world. But the so-called principle—the principle of prevention, the comprehensive principle—avoids the odium of that brutality of the Terror. The analogy is with a practice, more silent, more sinister—with the *lettres de cachet* of Louis Quatorze. No trial: proscription. The victim may be 'regulated'—not in his course of conduct or of action, not as to what he should do or avoid doing. He may be regulated to prison or the scaffold. Supposing the Appellant had been appointed for execution. Public outcry, public passion, public pity—these I can conceive; but I cannot conceive one argument upon the legal construction of this Act of Parliament that would have been different from the one which is now affirmed by courts of law. It is this last matter with which these are concerned. In my humble opinion the construction is unsound. I think that if Parliament had intended to make this colossal delegation of power it would have done so plainly and courageously, and not under cover of words about Regulations for safety and defence. The expansions of such language into the inclusion of such a power appear to me to be unwarrantably strained.

The Basic Danger

The use of the Government itself as a Committee of Public Safety has its conveniences, has its advantages. So had the Star Chamber. 'The Star Chamber,' says Maitland, 'examined the accused and making no use of the jury, probably succeeded in punishing many crimes which would otherwise have gone unpunished. But that it was a tyrannical court, that it became more and more tyrannical, and under Charles I was guilty of great infamies, is still more indubitable.' And then occur his memorable words: 'It was a

court of politicians enforcing a policy, not a court of judges administering the law.' There is the basic danger. And may I further emphatically observe that that danger is found in an especial degree whenever the law is not the same for all, but the selection of the victim is left to the plenary discretion whether of a tyrant, a committee, a bureaucracy or any other depositary of despotic power. Whoever administers it, this power of selection of a class and power of selection within a class, is the negation of public safety or defence. It is poison to the commonwealth. For within the range even of one Regulation—say to affect 'persons of hostile origin or association'—no one can say where the axe will fall. That description applies in all ranks and classes of society. That is why I feel constrained to dissent respectfully from the suggestion that in administering this power over liberty we ought to trust the Government. With a change of Government even during the war, this very engine may be turned against its own authors. There may be such a change in the extent and lines of such a Government's discretion as to turn the engine against new bodies of citizens, a new selection within the same class, or a new selection of a class. Such zigzags and ups and downs in the region of individual liberty are on this construction possible without even altering the words of an existing Regulation, once you are committed to the view that it falls within a delegation, so immense, implied in words from the Act. And once you have abandoned the line of safety which I have sketched—viz., confining Regulations to rules of conduct to be obeyed with safety or punished after trial for the breach—once that is abandoned, how far may you not go? Once a discretion over all things and persons and rights and liberties, so as to secure public safety and defence, what Regulations may issue? 'This one is founded on 'hostile origin or associations'. It enters the sphere of suspicion, founded not on conduct but on presumed opinions, beliefs, motives, or prepossessions arising from the land from which a person sprang. This is dangerous country: it has its dark reminders. It is the proscription, the arrest of suspects, at the will of men in power vested with a plenary discretion. If the power to issue Regulations meant thus to warrant a passage from proof to suspicion and from the sphere of action to the sphere of motive or the mind, let us think how much this involves.

Liberty of Opinion

No far-fetched illustrations are needed; for, my Lords, there is something which may and does move the actions of men often far more than origin or association, and that is religion. Under its influence men may cherish beliefs which are very disconcerting to the Government of the day, and hold opinions which the Government may consider dangerous to the safety of the realm. And so, if the principle of this construction of the Statute be sound, to what a strange pass have we come! A Regulation may issue against Roman Catholics—all, or say, in the South of Ireland, or against Jews—all, or, say in the East of London,—they may lose their liberty without a trial. During the war that entire chapter of the removal of Catholic and Jewish disabilities, which has made the toleration of Britain famous

throughout the world, may be removed—not because her Parliament has expressly said so, but by a stroke of the pen of a Secretary of State. Vested with this power of proscription, and permitted to enter the sphere of opinion and belief, they, who alone can judge as to public safety and defence, may reckon a political creed their special care, and if that creed be socialism, pacificism, republicanism, the persons holding such creeds may be regulated out of the way, although never deed was done or word uttered by them that could be charged as a crime. The inmost citadel of our liberties would be thus attacked. For, as Sir Erskine May observes, this is ‘the greatest of all our liberties—liberty of opinion’. All this, upon analysis, is what the Government through its law officers claim at the Bar of this House, and what is involved in the construction adopted by the Courts below. In my opinion the words of the Statute cannot be stretched to bear anything so repugnant to liberty and the law.

The Great Charter

I pass now from what the Act says and does to consider what, upon the vast implication given to its few words, it repeals. My Lords, I do not think it any mistake to suggest that in substance it repeals the Habeas Corpus Acts, the 31st of Charles II or the 100th of George III. The Habeas Corpus Acts are, it is true, procedure Acts. In one sense they confer no rights upon the subject, but they provide a means whereby his fundamental rights shall be vindicated, his freedom from arrest except on justifiable legal process shall be secured, and arbitrary attack upon his liberty and life shall be promptly and effectually foiled by law. Formally in this case the writ of habeas corpus was allowed. It is now being tried. But what has been done by the Courts below is to give due formal respect to the procedure of remedy, but to deny the remedy itself by inferring the repeal of those very fundamental rights which the remedy was meant to secure. This is to allow the subjects of the King by law to enter the fortress of their liberties only after that fortress has been by law destroyed. As will be seen in a moment, it is not that the *Habeas Corpus* has been repealed; it is not, as in so many trying periods of history, that it has been suspended. There is a repeal and a suspension much more drastic than that. There is a constructive repeal which has, so far as I am aware, no parallel in our annals—a getting behind the habeas corpus by an implied but none the less effective repeal of the most famous provisions of Magna Charta itself. It is well settled that once liberation under the writ has been granted ‘the legality of that discharge could never be brought in question’ (*Cox v. Hakes*, 15 A.C. 514), but in pronouncing judgment to that effect Lord Halsbury used language which I here adopt on the wider problem now in hand: ‘Your Lordships are here determining a question which goes very far indeed beyond the merits of any particular case. It is the right of personal freedom in this country which is in debate, and I for one should be very slow to believe, except it was done by express legislation, that the policy of centuries has been suddenly reversed.’ I go accordingly at once to the notable 39th and 40th chapters of Magna Charta, wrung from

King John in June, 1215. McKeehnie (p. 376) translates them thus. His version is of set purpose literal: 'XXXIX. No freeman shall be taken or [and] imprisoned or disseised or in any way destroyed, nor will we go upon him nor send upon him, except by the lawful judgment of his peers or [and] by the law of the land. XL. To no one will we sell, to no one will we refuse or delay right or justice.' The learned author justly observes: 'Its object was to prohibit John from resorting to what is whimsically known in Scotland as "Jeddart" justice. It forbade him for the future to place execution before judgment.' And on the words '*nec super eum ibimus nec super eum mittemus*' he remarks in the same spirit: 'Their object was to prevent King John from substituting violence for legal process: he must never again attack *per vim et arma* men unjustly and uncondemned.'

The Writ of Habeas Corpus

If there be any, my Lords, who in this time of storm and stress think these chapters useless reading or their lesson out of date, I am not of their number. I remember the penetrating judgment of Hallam on that very topic. After citing these chapters of the Charter that great author observes ('Middle Ages', II. 449):—'It is obvious that these words interpreted by any honest court of law convey an ample security for the two main rights of civil society. From the era, therefore, of King John's Charter it must have been a clear principle of our Constitution that no man can be detained in prison without trial. Whether courts of justice framed the writ of habeas corpus in conformity to the spirit of this clause, or found it already in their register, it became from that era the right of every subject to demand it. That writ, rendered more actively remedial by the Statute of Charles II, but founded upon the broad basis of Magna Charta, is the principal bulwark of English liberty; and if ever temporary circumstances or the doubtful plea of political necessity shall lead men to look on its denial with apathy, the most distinguishing characteristic of our Constitution will be effaced.' Speaking for myself, and again coming back to the words to be construed, viz., 'His Majesty in Council has power during the continuance of the war to issue Regulations for securing the public safety and the defence of the realm,' I decline to believe that Parliament ever did or intended to do by these words those stupendous things—to remove 'the two main rights of civil society', to repeal 'the clear principle of our Constitution that no man can be detained in prison without trial', or to efface 'the most distinguishing characteristic of our Constitution'.

In *Darnel's Case* Coke's great argument had embraced the famous propositions—'I. No man can be imprisoned upon will and pleasure of any but a bondman or villein. II. If a freeman of England might be imprisoned at the will and pleasure of the King or by his command, he were in worse case even than a villein . . . and III. A freeman imprisoned without cause is civilly dead.' And in commenting on the case so staid an author as Broom delivers himself (Constitutional Law, 223) thus:—'This great constitutional remedy [the writ of habeas corpus] rests upon the common law declared by

Magna Charta and the Statutes which affirm it; rests likewise on specific enactments, ensuring its efficiency, extending its applicability, and rendering more firm and durable the liberties of the people. The right to claim it cannot be suspended even for one hour by any means short of an Act of Parliament.'

The Petition of Right

How hollow and worthless to the Appellant is the concession of a trial of his writ of *habeas corpus* when the basis of his possible liberation is constructively denied! The method is not unknown to English history, but history in darker times; the method of despotism; the tyrannical fiat of the King in Council; and compliance to that as law. It brings back to mind the constitutional struggle of 1628 and the very language of the Petition of Right: 'And whereas,' says chapter 2, 'alsoe by the Statute called the "Great Charter of the Liberties of England", it is declared and enacted that no freeman may be taken or imprisoned or be disseised of his freehold or liberties or his free customs or be outlawed or exiled or in any manner destroyed but by the lawful judgment of his peeres or by the law of the land. . . . Nevertheless [chap. 5] against the tenor of the said statutes, and other the good lawes and statutes of your realme to that end provided, divers of your subjects have of late been imprisoned without any cause shewed; and when for their deliverance they were brought before your justices by your Majesty's writtes of *habeas corpus*, there to undergoe and receive as the Court should order, and their keepers commanded to certifie the causes of their detayner, no cause was certified but that they were detained by your Majesty's speciall command certified by the Lords of your Privie Councell, and yet were returned backe to severall prisons without being charged with anything to which they might make answer according to the lawe. They do [chap. 8] therefore humbly pray your Most Excellent Majestic . . . that no freeman in any such manner as is before mentioned be imprisoned or detained.' The grant of this Petition was wrung from Charles I, and it entered the Statutes of the Realm. And this, too, this second charter of liberty, has been borne to the ground by the tremendous sweep of an implied repeal! The list need not be enlarged: it would include the Bill of Rights itself.

After citing 'The Magna Charta of Scotland', the Scotch Act of 1701, entitled 'An Act for Preventing Wrongful Imprisonment and against Undue Delay in Trials', Lord Shaw proceeded:

The Practice of the Constitution

I pass from the subject of repeal to the further proposition that what has been done on the implication supposed is alien to the practice of the Constitution. On many occasions in this Island has the attention of the Legislature been called to the subject of exceptional legislation in view of foreign attack, political unrest or civil war. And the mode of dealing has been frank, firm and open—viz., a temporary suspension of the Habeas

Corpus Act. When the authority of the King in Council was stretched out to interfere with liberty or life and to undermine the securities thereof in Magna Charta and the Habeas Corpus Acts, public unrest might grow, even a dynasty might accelerate its own ruin, but Parliament would re-assert itself and sharply bring the peril to an end. But when Parliament itself devoted its energies to the task it took up no casual manner and left its action in no form so covert that the Bench had to expand inferentially its meaning. Blackstone is quite clear upon the practice of the Constitution. He (I, 1) searchingly treats the case both of liberty and life as tests, both and equally, of one and the same principle, the very principle which is under scrutiny in the present case. 'To bereave a man of life, or by violence to confiscate his estate, without accusation or trial, would be so gross and notorious an act of despotism as must at once convey the alarm of tyranny throughout the whole kingdom; but confinement of the person by secretly hurrying him to gaol, where his sufferings are unknown or forgotten is a less public, a less striking, and therefore a more dangerous form of arbitrary government. And yet sometimes when the State is in real danger this may be a necessary measure. But the happiness of our Constitution is that it is not left to the Executive power to determine when the danger is so great as to render this expedient: for it is the Parliament only or legislative power that, whenever it sees proper, can authorise the Crown, by suspending the Habeas Corpus Act for a short and limited time, to imprison suspected persons without giving any reasons for doing so.' It would take too long to enumerate the instances in English history in which this course has been followed. No instance was advanced in argument when the method was not adopted, but the end reached by other means. But I will venture to recount one striking case in the close of the eighteenth century—interesting because the cases of England and Scotland were each distinctively treated, and in both the constitutional rights guaranteed by Statute were recognised, and temporary suspension and repeal were accomplished, overt and express. Every real mind in Europe was stirred by the events of 1789 and 1793, and the execution of Louis Seize and his Queen in the latter year may have precipitated parliamentary action here. But it was careful action. In 1794 the Act, 34 Geo. III, was passed. It proceeded upon the preamble, 'Whereas a traitorous and detestable conspiracy has been formed for subverting the existing laws and Constitution and for introducing the system of anarchy and confusion which has so fatally obtained in France'. It enacted for England that persons that are or shall be in prison by a warrant of the King and six Privy Councillors, or by warrant of a Secretary, for treason or treasonable practices may be detained 'without bail or mainprize' till 1st February, 1795, and no Judge should release them, 'any law or statute to the contrary notwithstanding'. This was plain language: it followed constitutional practice: for some months and in defined cases the Constitution was suspended. How was Scotland dealt with? In 1707 the Union of the Parliaments had been effected; but the great Act of the Scotch Parliament in 1701 was now, in 1794, fully and separately recognised. It was

enacted that the Act made in Scotland in the year of our Lord 1701, 'in so far as the same may be construed to relate to cases of treason and suspicion of treason be suspended' until the same fixed date, viz., 1st February, 1795, and then the following notable proviso follows—viz., 'Provided always that from and after the said 1st February, 1795, the said persons so committed shall have the benefit and advantage of all laws and statutes in any way relating to or providing for the liberty of the subjects of this realm and that this present Act shall continue until the said 1st February, 1795, and no longer.'

Parliament and Fundamental Liberties

That, my Lords, is an ordinary and a fair sample of our constitutional practice, and of the express, the watchful, the clearly limited, and the scrupulously careful handling of our fundamental liberties whenever these are meant to be affected. Judged in the light of that practice the wide and entirely inferential construction of words about Regulations for safety and defence which has been adopted by the Courts below seem to be the last resort of interpretation and to be strikingly condemned. And before I leave the topic I may observe as bearing on the intention of the Legislature that where, in this very Act of 1914, suspension or repeal or a transaction of that nature was truly meant, Parliament knew perfectly well how to accomplish its object, and did so. By the second sub-section of the very Section 1, which is under construction, it is provided that 'any such regulations may provide for the suspension of any restrictions on the acquisition or user of land' under the Defence and other Acts, and may supersede any enactments, &c., as to pilotage. It is to my mind inconceivable that Parliament, expressly suspending and repealing certain laws about property or pilotage, should have refrained from doing so, if it had meant to do so, in the infinitely weightier matters of the law and left this suspension and repeal of these to be implied. I do not think on ordinary principles of interpretation such a thing as this vast suspension and repeal can be inferred by law.

My Lords, the House is in possession of my construction of the words giving power to the Government to make Regulations. That construction is simple. It does violence to no language. Under it Regulations play their useful and their helpful part. It is entirely consistent with the rest of the Act. It operates no repeal of any Statutes of the Realm. It leads to no startling or absurd results and to no upheaval or constitutional right. In every one of these particulars it appears to be in accord with those principles of the interpretation of Statutes which are embedded in our law and are unquestionable.

The Principles of Interpretation

Differing as I unfortunately and respectfully do from your Lordships, it would not be right that I should fail to add that the expanded construction adopted by the Courts below appears to me in every one of these particulars to be inconsistent with those principles of interpretation which have been long recognised. It is I humbly think, not simple, but strained. It is

repugnant to the rest of the Act. It operates repeal of Statute on an important and vast scale. It leads to startling and absurd results and to an upheaval of constitutional right. My reasons and exposition on each of these topics are before the House. I do not think the application of legal doctrine to them is doubtful. To that I come, taking them in their order.

In the first place, my Lords, I strongly protest against the view of the Courts below of the words of the Act being taken as a literal view. The Appellant has been (1) interned, (2) without a trial, (3) because he is of hostile origin or associations. Parliament never said in words any one of those things. They are and are alone inferences—inferences from the delegation of a power—a power to make Regulations for safety and defence. As to what may be done under such a power may be matter of far-reaching inference or wide and deep speculation; but these things do not touch the literal rule—the rule as to grammatical and ordinary sense of the actual words employed in the Act itself—that if Parliament had really meant to sanction internment without trial for the cause assigned it could have said so without the slightest difficulty, and not left a point which, I think, is so fundamental, to be reached by inference. I may add, my Lords, that, holding as I do that Parliament never intended to construct an instrument of violent and arbitrary power, but to do a much more helpful and reasonable thing, I should have come to the same conclusion even though the language had been much more plain and definite than it is. So consistent is the interpretation which I have ventured to put upon them—viz., that Regulations are the formulation of rules for the citizen's action and conduct, in obedience to which he shall be safe and in disobedience to which he shall on trial be punished, that all the rest of the Act fits in with this and makes the requisite provisions in great detail for trial and punishment accordingly. So repugnant to the interpretation finding favour in the Courts below, the interpretation that a power to issue Regulations for safety and defence covers every power over the citizens which the Government may judge expedient for the object in view, that the entire remainder of the Act becomes surplusage. For everything could have been done by Regulation. And indeed it does not stop there. For nine-tenths of the labours of Parliament are surplusage: all are covered by the same principle: all could be covered by 'Regulations'. This construction appears to me to be opposed to legal principle. Two constructions are available—one of harmony and consistency, the other of over-riding and repugnancy. In my view, in all such cases it is reasonable and according to law that the former be preferred.

Repeal by Implication

Upon the last point—viz., that the construction upheld implies a repeal of the ancient liberties and right of our people and of statutes both south and north of the Tweed which have been their protection in the enjoyment of these, your Lordships have already had a statement of my views. No repeal like this, or in this manner, at once so sweeping and so covert, has ever been accomplished in the modern history of this Island. That

Parliament should have entertained such an intention of repeal I do not believe: that it would have recoiled from putting such an intention of repeal into words I can well understand. The law on such a subject is beyond doubt or question. Such an intention is the very last resort of a court of construction. Your Lordships have already heard my citation from Blackstone. It holds the field. It still represents, in my opinion, both the law of the land and the practice of the Constitution. Both may have been revolutionised by the stupendous repeal implied from the words of this Act. I do not think there is any such repeal, either in word, in implication, or in intention.

In the latest edition of Maxwell on Statutes, p. 268, I find the law exactly as I viewed it stated thus:—‘Repeal by implication is not favoured. A sufficient Act ought not to be held to be repealed by implication without some strong reason. It is a reasonable presumption that the Legislature did not intend to keep really contradictory enactments in the Statute Book, or, on the other hand, to effect so important a measure as the repeal of a law without expressing an intention to do so. Such an interpretation, therefore, is not to be adopted unless it be inevitable. Any reasonable construction which offers an escape from it is more likely to be in consonance with the real intention.’ The construction I have ventured to propose appears to me to be not unreasonable, but to square with every familiar and accustomed canon. I think that the judgment of the Courts below is erroneous, and is fraught with grave legal and constitutional danger. In my opinion the appeal should be allowed, the Regulation challenged should be declared *ultra vires*, and the Appellant should be set at liberty.

APPENDIX II

ON August 23rd, 1919, *Common Sense* published the following letter from Sir John Simon:

Sir,

I notice that Sir Herbert Leon, in your issue of to-day's date, inquires how the legal position as regards embargoes on imports can be established. There are many ways in which it might be done; one of them is by taking action referred to in a letter I have written to the Solicitor of the Board of Trade, a copy of which I enclose.

Yours faithfully,
JOHN SIMON.

1, Airlie Gardens, W., August 16, 1919.

(Enclosure-Copy)

The Solicitor,
The Board of Trade,
Whitehall, S.W.

Dear Sir,

I write to give you notice that in about a fortnight's time I expect to be returning from Spain by the P. & O. Liner 'Kaiser I Hind', and that

I intend to bring with me for purposes of import into this country certain goods of foreign origin, the importation of which is prohibited by Proclamations purporting to be made under Section 43 of the Customs Laws Consolidation Act 1876.

That Section, as you know, authorises the executive to prohibit the importation of Arms, Ammunition, Gunpowder, or any other goods, but it has hitherto been generally supposed that the expression 'any other goods' must be construed to mean any other goods of the same kind as those mentioned, and that consequently the Section could confer no authority to prohibit or restrict the importation of furniture, boots, chinaware, locks, wire, cycle accessories, and hundreds of other useful articles which have no resemblance to arms, ammunition, or gunpowder, and the price of which is so high in England.

If this is not the true construction of the Section, then the power of the Executive to interfere with our import trade is quite unrestricted, and statutory authority to abolish free imports is superfluous. Moreover, if the Section really confers this enormously wide power on a Government department, it is difficult to understand why Parliament ever mentioned arms, ammunition, and gunpowder in the Section at all.

Will you please inform the Imports Restrictions Department and the President of the Board of Trade of the contents of this letter, so that instructions may be given to the Customs Officer at Tilbury how to deal with my goods when the ship arrives. In order to avoid any misapprehension I had better add that I am not applying for any licence to import, as if the Proclamation is without authority I do not need any permission to do so.

The goods will be quite new, and are not for my own personal use; I intend to sell them again.

Kindly communicate with my solicitors, Messrs. Stevenson, Harwood & Co., 31, Lombard Street, E.C., as to whether the Customs House Officer will be instructed to oppose the importation of the goods when I declare them, as no time will then be lost in bringing an action which will test the legality of the Proclamations under which the Authorities are claiming to act.

Yours faithfully,
(Signed) JOHN SIMON.

London.
August 16, 1919.

PART II

FINANCIAL AND ECONOMIC
CONSEQUENCES OF THE WAR

BOOK I

THE WAR AND POST-WAR BUDGETS, 1914-1933

INTRODUCTION

No precise estimate can be framed in pounds, shillings, and pence of the losses suffered by the people of Britain through their participation in the Great War. One of the worst, and certainly the most tragic—the death or maiming of the flower of our youth and manhood—is obviously incalculable. No one can measure the consequences to thousands of companies and business firms resulting from this gap in the succession of those who would have taken their place in the direction of capital and labour, to say nothing of the fine mechanics and artisans and sturdy labourers, who fell at the very outset of their careers.

At best political economy is not an exact science, though its value depends on the accurate and logical application of sound principles, derived from experience and common sense, to nations and individuals. Nevertheless it is in this sphere, where we are dealing with the material results of the War, that we shall be able to get nearest to the truth. There is much room for doubts and controversies as to the purely political, moral, and social effects of the Great War; but in the regions of finance and trade, business and employment, money and credit, we can often plant our feet on the firm ground of acknowledged facts and indisputable figures. There are many ways of approach; but I have no doubt that the best is through the Budgets, which provide us with an annual presentation of the changes wrought by the War at the time, and also of its after effects. I shall, therefore, commence this part of the survey (Book I) with an account of the War Budgets, followed by a summary of the post-war Budgets so far as they reflect in expenditure, taxation, and policy those changes in national wealth and capital, in fiscal policy, social outlook, and labour conditions which have been wrought in whole or in part by the War. In the Book which follows there is some unavoidable repetition, which the reader will understand and excuse.

CHAPTER I

THE WAR BUDGETS, 1914-1918

A GENERAL belief, which existed at the beginning of the War, that a conflict so gigantic would soon be brought to an end, if not by military means, by financial exhaustion, may explain, if it does not justify, the inadequacy of the first two War Budgets, for which Mr. Lloyd George, as Chancellor of the Exchequer in Mr. Asquith's Liberal Administration, was responsible. It would be unfair to criticize them in the light of later knowledge; but even when we place ourselves in the environment and atmosphere of the time, we cannot but feel, as many of his critics felt, that the measures first taken to finance the War were feeble and unworthy; and, in particular, we cannot but be struck by the fact that not one penny of new taxation was imposed by the second War Budget in May 1915, though the expenditure was then mounting at a prodigious and alarming rate, and all hope of a speedy termination of hostilities had vanished. It was not until the third War Budget was introduced, in September 1915, that effective steps were taken to finance the War; and, as will be seen, even when the War ended, taxation was still below the level to which it had subsequently to be raised.

In presenting the figures of War Budgets, or indeed any Budgets, one is faced with some difficulty in selecting comparable figures. Even experts in public finance sometimes forget that there are several sets of figures which are equally official and correct. From time to time, changes are made in the form of the national accounts; and when these changes occur, revised sets of figures are compiled for previous years on the new basis; and naturally these differ from those originally published. Again, the Budget figures always relate to Exchequer receipts and issues during the year; but other figures are published for the national income and expenditure based on the final audited accounts.¹ Differences of this kind are, however, quite small in degree, and I only mention them in order to account for any apparent discrepancy between the figures here presented (which are those given in the annual Finance Accounts of the United

¹ Further, it should be remarked that some of the estimates of the original Budget are usually enlarged in the course of the year by Supplementary Estimates.

Kingdom) and other figures which the reader may have noted from different sources.

The First War Budget—November, 1914

THE REVISED ESTIMATES FOR 1914-15

(in £ millions)

Ordinary Expenditure	.	.	207	Revenue	.	.	.	211
War Expenditure	.	.	328	To be borrowed	.	.	.	324
			<u>535</u>					<u>535</u>

Three and a half months of fighting had elapsed before Mr. Lloyd George introduced his first War Budget¹ on November 17th, 1914. By that time, the actual cost of the War, over and above the normal expenditure of the country, had mounted to nearly a million pounds a day, and already the country was supporting two million men under arms.

It was then supposed that the estimates of revenue, on the basis of taxation imposed by the Budget of May 1914, would not be realized: the rise of prices and the consequent growth of profits had not yet resulted in an increased yield of income tax. The original estimate of £207 millions was therefore reduced to £196 millions. At the same time, the original estimate of expenditure, also £207 millions, was increased owing to the cost of the War by £328 millions, making a total of £535 millions. There was thus a prospective deficit of £339 millions. To meet this, only £15 millions of new taxation was imposed; the remaining £324 millions were to be found by suspending the New Sinking Fund, and by borrowing.

That a decline of revenue under war conditions should have been anticipated was natural enough, especially as the yield just before the War was at a high peak. In his Budget speech in 1913, Mr. Lloyd George had said that 'trade was at its best, unemployment at its lowest, profits were at their highest, home and overseas trade had attained dimensions they had never approached, and the business, commerce and industry of this country enjoyed a productivity and prosperity which had rarely been witnessed in the history of the country'.

In the spring of 1914 conditions were even better. Unemployment had fallen to 2 per cent., and trade was at the highest point ever recorded.

¹ The second Budget of 1914.

But the coming of the War changed every prospect, and the Chancellor could no longer look forward to a naturally expanding revenue. Instead, he found his revenue decreasing, while enormous additions were being made to the expenditure. And with the unsettled conditions due to the shock of the War, with the Stock Exchange closed, and the uncertain industrial outlook, it was a difficult problem to determine how much of the war expenditure should be met by new taxation and how much by loans.

Mr. Lloyd George decided to make only three additions to taxation. First, he doubled the income-tax and supertax for the remaining four months of the year. The rate of income-tax was thus raised to 1s. 8d. in the pound for the whole period. But very few people actually paid as much as 1s. 8d., since an earned income between £2,000 and £2,500 was only to be charged at the rate of 1s. 6½d. in the pound. This was certainly a time when the income-tax should have been extended to a much larger number of persons, by a reduction of the limit of total exemption which was then £160. In this way, the burden of the cost of the War would have been more widely distributed at a time when all should have been called upon to make great sacrifices. In the House of Commons on November 17th, 1914 (the day of the Budget), Mr. Lloyd George spoke as follows:

‘On the ground of policy as well as of justice, it is inexpedient that a great war involving national honour and existence should be financed by contributions levied upon any section—upon a minority of the population. It is peculiarly a ease for every class, every condition, every grade to bear their share of the burden.’

Mr. Lloyd George said he had considered the proposal to tax wages; and, during the discussion on the Finance Bill, Mr. Arthur Henderson suggested ‘a graduated tax on wages’ as an alternative to an increased tea duty. He also offered the practical suggestion that it should be ‘collected at the source through the employers’. Mr. Lloyd George, however, preferred two increases of taxation from the indirect taxpayer. He raised the beer duty from 7s. 9d. per standard barrel to 25s., an increase of 1d. per pint; and he raised the tea duty from 5d. to 8d. per lb. These three increases of taxation were expected to raise £12½ millions, £2½ millions, and £900,000, respectively, during the remainder of the year. For the next financial year, 1915-16, they were expected to raise £44½,

With £15 millions from new taxation and the suspension of the New Sinking Fund (£2 $\frac{3}{4}$ millions), Mr. Lloyd George left a deficiency of over £321 millions to be met by borrowing. He then announced the issue of the First War Loan—£350 millions in 3 $\frac{1}{2}$ per cent. at £95—redeemable at £100 between March 1st, 1915, and March 1st, 1928. In this loan Mr. Lloyd George set a bad precedent by inviting subscriptions from the banks rather than from the small investor. All the banks undertook for a period of three years to lend to their customers the full amount of their subscriptions to the new loan at 1 per cent. under current bank rate.

Since twenty times as much money was to be borrowed as was to be raised in new taxation, this Budget was far from satisfactory; but, as has been said, allowance must be made for the extraordinary difficulties of the time. Referring to Mr. Lloyd George's proposals in this Budget, Sir Bernard Mallet and Mr. C. Oswald George say in their book, *British Budgets*: 'His action does not at first sight appear to correspond with the vigorous language he used in opening his budget, and he has been severely criticized by some writers for obtaining such a small proportion from taxes; but it is necessary to remember that there remained only a few months for the new rates to swell the current year's revenue, that the new proposals could obviously not bear full fruit immediately, and that in the full year of 1915-16 the proposed increases were estimated to produce the substantial sum of £65 millions, an increase of approximately 40 per cent. on the total pre-war tax revenue.'

THE ESTIMATES FOR 1915-16

	(in £ millions)	
Ordinary Expenditure ¹	154	Revenue 267
War Expenditure	978	To be borrowed 865
	<u>1,132</u>	

The first War Budget had been accepted as a makeshift, and it was not difficult to find excuses for the comparatively small

¹ Excluding the Army and Navy.

amount of new taxation imposed during the first year of the War. But a carefully thought-out plan for increasing the revenue in order to meet the rapidly rising cost of the War was expected when the second War Budget was introduced on May 4th, 1915; and public opinion was prepared for a sharp increase of taxation. This was all the more necessary since the outcome of the previous year had proved to be even worse than was estimated in the Budget of November 1914. Expenditure exceeded the estimate by £25 millions, and reached the total of £560 millions; and though revenue had also exceeded expectation, £12 millions more had to be borrowed than had been estimated. Yet, to the general astonishment, no new taxation at all was imposed in this Budget.

With a curious disregard for financial custom, Mr. Lloyd George anticipated the Budget by five days by announcing on April 29th that he proposed to double the duty on drinkable spirits, making it 29s. 6d. a gallon, to quadruple the wine duties, and to add 12s. a barrel to the duty on beer containing 7 per cent. of spirit. 'Drink', he declared, 'is doing us more damage than all the German submarines put together.' These proposals aroused strenuous opposition, not only from Conservatives, but also from the whole of the Irish Nationalist Party, including its leaders; and eventually they were withdrawn. Supervision of the drink trade in areas directly concerned in war services was agreed to, however; and the Central Control Board (Liquor Traffic) was set up, with Lord D'Abernon as chairman. At a later date, far heavier taxation of intoxicants was imposed than Mr. Lloyd George had suggested.

For the expenditure of the year 1915-16 Mr. Lloyd George offered two alternative estimates, one based on the assumption that the War would be over within five months, the other that it would last till the end of the financial year. In view of Lord Kitchener's warning to the Cabinet that the War might be expected to last three years, it is difficult to understand why Mr. Lloyd George should have talked about the War ending within ten months of its outbreak, so we may pass to his second assumption. If the War lasted till the end of March 1916, the Army vote would be £600 millions, the Navy vote £146 millions, advances to Allies and Dominions would require £200 millions, and the total expenditure would be £1,132 millions.

Against this huge total the amount to be raised by taxation

was only £267 millions, which left £865 millions to be met by borrowing. To excuse his failure to raise a larger proportion of revenue, Mr. Lloyd George said it was impossible to gauge the duration of the War at that time, and that proposals adequate for a short campaign would be inappropriate for a long one, and vice versa. If, he added, we ever had to consider what taxes should be raised 'in order to get through a war lasting two or three years', it would be right to levy taxation on 'those who make exceptional incomes out of the war'. But in any case people who were making exceptional incomes ought to have been specially taxed at the earliest moment. Instead of taxing them Mr. Lloyd George allowed the spending habit to grow at a time when the requirements of the War made it urgently necessary to cut down all private spending to a minimum. The rise in prices, the enormous growth of the War debt, and the heavy burdens left by the War may all be traced in part to the failure to impose adequate taxation during the first thirteen months of the struggle. Mr. Lloyd George himself had said that our ancestors towards the end of the war with Napoleon 'taxed themselves to the extent of two-sevenths of their incomes'. This figure may not be accurate, but it should have been a prelude to drastic proposals. But the House of Commons only heard a warning that more taxation would be needed 'if the war is prolonged'. In *British Budgets* Mallet and George say truly enough: 'His [Mr. Lloyd George's] failure to impose substantially increased taxation at this stage, which would have profoundly altered our whole war finance, has met with almost universal condemnation.'

By this time attention was being directed to the rising tide of extravagance. Even in the House of Commons protests against waste by the War Office and against excessive profits and wages began to be heard. Sir F. Banbury denounced the practice of paying contractors a percentage on the total cost of their works. On June 29th, 1915, the Prime Minister himself started an Economy Campaign at the Guildhall and declared that the country must reduce its expenditure on tea, tobacco, wine, sugar, petrol, and other imported articles. In the House of Lords a week later Lord Middleton carried a resolution urging the Government to take effectual steps to reduce the civil expenditure of the country. Revenue, he said, would not cover expenditure, even if war came to an end next March, if all the advances to Allies and Dominions were repaid,

and if war expenditure ended with the fighting. Lord Lansdowne agreed with Lord Middleton's speech, but observed gloomily that 'with the outbreak of a great war the floodgates of extravagance are opened wide'. Lord St. Aldwyn, an ex-Chancellor, complained that the House of Commons had not attempted any effective criticism of expenditure. Speaking from experience, he disagreed with the theory that taxation would check subscriptions to war loans: 'I never found that new taxation interfered with the success of the loans I had to raise.'¹ Lord Loreburn supported the economy movement, saying, 'We are going straight to European bankruptcy in a comparatively short time; . . . and bankruptcy, I fear, in many places, may be the prelude to revolution.' Within four years this prophecy was fulfilled in Russia, Germany, Turkey, and Austria.

It would be difficult to criticize the second War Budget too severely. It was hardly a Budget at all, certainly not a War Budget. As soon as the confusion of the first weeks of war had cleared away, old taxes should have been raised, and new ones devised, both to supply revenue and to check spending by individuals. Every one who could work was working; there was no unemployment; wages and profits were rising. Possibly Mr. Lloyd George's real reason for not imposing taxation was the critical position of the Liberal Government in the spring of 1915. Within three weeks of the introduction of the Budget, and before the Finance Bill had received a second reading, the first Coalition was formed. On May 19th Mr. Asquith announced that he proposed to reconstruct the Ministry on a broader political basis, and a week later the leaders of the Conservative Party and several Labour politicians were in office. Mr. Lloyd George became Minister of Munitions, and was succeeded by another Liberal, Mr. Reginald McKenna, as Chancellor of the Exchequer.

The Third War Budget—Sept. 1915

THE REVISED ESTIMATES FOR 1915-16

(in £ millions)		
Ordinary Expenditure . . .	155	Revenue 305
War Expenditure	1,435	To be borrowed 1,285
	<u>1,590</u>	<u>1,590</u>

¹ Cf. an article in *The Economist*, July 24th, 1915, on 'Waste and the Postponement of Taxation'.

In view of Mr. Lloyd George's failure to increase taxation in the Budget of May 1915, his successor Mr. McKenna decided, quite rightly, not to wait until the following spring before taking action, but introduced an emergency Budget on September 21st, 1915, which did something to check the tide of extravagance and place the war finance on a sounder basis. This Budget, as he said, imposed 'an unprecedented burden on the country', or at least on its wealthier classes.

By this time, the average daily expenditure had reached £4 millions; and the expenditure for the year was now estimated at £1,590 millions, an increase of £458 millions on the estimate made in May. On the other hand, as borrowed money flowed into circulation, prices, profits, and incomes had begun to rise, and the estimate of revenue was raised by £5 millions, making £272 millions on the existing basis of taxation. Mr. McKenna proposed additional taxes estimated to yield £33 millions in the current year, raising the total revenue to the unprecedented figure of £305 millions; but even this, he calculated, would leave a total dead-weight debt of £2,200 millions at the end of the financial year.

Many new taxes had been suggested, but the new Chancellor did not on this occasion introduce any novelties, 'because', as he said, 'there is a strict limit to the possible amount of taxation which may be imposed at one time', and every new tax laid a new burden upon the Board of Inland Revenue and on the office of Customs and Excise. Although revenue must be the first consideration, it was also necessary, he said, to discourage imports and reduce consumption. First, Mr. McKenna proposed a drastic revision of the income-tax, adding 40 per cent. to the existing rates and extending the tax downwards by reducing the exemption limit for single persons from £160 to £130 and cutting down the abatements. Then, adopting a reform which was long overdue, he raised the assessments of farmers from one-third of their rent to the whole rent, but still allowed them the alternative of being assessed on their actual profits. More important was the proposal to apply the income-tax to wage-earners by means of quarterly assessments through returns made by employers. In theory wage-earners had always been liable to income-tax if their earnings exceeded the old limits of exemption, but in practice they escaped because it was so difficult to convert a weekly wage, which might fluctuate or come

to an end, into an annual income. The supertax was also raised on incomes beyond £8,000. Altogether these changes were expected to bring in £47 millions in a full year.

At that time it seemed startling to ask a man with £20,000 a year to pay a rate of 6s. in the pound, though two and a half years afterwards Mr. Bonar Law was to make 6s. the standard rate of income-tax.

Financially by far the most important innovation of the third War Budget was the excess profits duty—‘a special tax in respect of profits which have increased during the War period’, to be paid by ‘all trades, manufacturers, concerns in the nature of trade and business, including agencies’, whose profits exceeded the profits on the income-tax assessment of 1914-15 by more than £100 (amended to £200 during the subsequent debate). The rate of duty on these ‘excess profits’ was 50 per cent. Certain concessions were given to particular concerns on which the new tax would have fallen unfairly. In the Budget discussions which followed, Mr. McKenna defended the new tax or duty by saying: ‘We now get to the man who has got an excess income for the first time: we have also got to the man who has suddenly got excess profits with respect to the expenditure of which he is not committed.’ This was a perfectly sound argument, but it did not apply completely to the new tax, which was not levied on a man, but only on a business. If a man owned one shop in a prosperous munitions area and made a large profit, and another shop in an east coast town exposed to bombardment, where he made a loss, he would not be allowed to set the loss against the profit. Many critics tried to get the excess profits duty turned into an excess income-tax; one of them observed maliciously that *new* Cabinet Ministers ought to pay the new duty.

As a machine for raising revenue, the E.P.D., as it soon came to be called, proved a great success. Its yield was negligible in the financial year 1915-16, but in the following year it brought in £140 millions, and much larger sums in succeeding years. Apart from its value in producing revenue, it was useful in meeting complaints about the enormous profits made by contractors and others, and it was very popular with those who did not have to pay it. At a later date it was raised to perhaps too high a figure (80 per cent.) and was kept on too long after the War, when it became a factor causing the depression of trade. The tax was also open to the

objection that it encouraged a new kind of extravagance. Manufacturers spent lavishly on improvements to their premises, &c., and yielded too readily to demands for higher and higher wages, because they felt that 17*s.* in the pound of the cost would otherwise go to the Exchequer in excess profits duty and income-tax. The duty also operated unfairly by taxing excessively certain concerns, e.g. rubber plantation companies, which only reached the profit-yielding stage *during* the War and not as a *result* of the War. The objections to the tax were, however, of small account when set against its productiveness at the very time when revenue was most required.

It has long been a tradition of the Treasury that direct and indirect taxation should maintain some kind of balance. So the Chancellor proposed to raise the sugar duty from 1*s.* 10*d.* a cwt. to 9*s.* 4*d.* per cwt.; but he explained that the tax would not be passed on entirely to the consumer. Sugar was already 'controlled' by a Royal Commission, which would fix the price at a figure raising the cost of sugar by a halfpenny a pound. Then the old duties on tobacco, tea, cocoa, coffee, chicory, and dried fruits (except currants) were raised by 50 per cent. The patent medicine duties were doubled. There was no increase in the spirit duties, though it was long overdue; and Mr. McKenna's only excuse for not raising them was the unwillingness of the House of Commons to grant the increased duty demanded by Mr. Lloyd George on April 29th. On petrol, an obvious resource for a Finance Minister in war time, Mr. McKenna raised the duty by 3*d.* a gallon; he also took the proceeds of the duty away from the Roads Improvement Fund.

Another fiscal change—the imposition of what came to be called the 'McKenna Duties'—proved to be the most contentious part of the Budget. Mr. McKenna was still in theory, like his Liberal colleagues, a Free Trader; but he seems to have felt an obligation to relax his principles out of deference to his new Conservative colleagues, who were Tariff Reformers. So he proposed an *ad valorem* customs duty of 33½ per cent. on certain imported luxuries, i.e. motor-cars and motor-cycles (and parts), cinematograph films, clocks, watches, musical instruments, plate glass, and hats. These duties were not imposed mainly for revenue; indeed, they were not expected to yield two millions a year. Their ostensible purposes were to maintain the sterling exchange, to save ship space for more

necessary imports,¹ and to cut down expenditure on luxuries. But no excise duties were imposed, and consequently the McKenna duties stimulated the production of these luxuries at home, and re-introduced Protection. Hence they roused much indignation among Free Traders, who complained that the party truce was being broken; but Mr. McKenna asserted that 'no fiscal principle of any kind is compromised by the present proposal', and later on Mr. Asquith himself maintained that the duties had nothing to do with tariff reform and were merely meant to limit unnecessary importations. Mr. Bonar Law denied that the new duties had been pressed on the Chancellor by his colleagues, adding: 'duties of this kind would never be continued under any circumstances when the War was over—I mean duties on this scale'. In the end the duties were adopted after commercial motor-vehicles, plate glass, and hats had been left out. But this concession to his protectionist colleagues damaged Mr. Asquith in the eyes of Liberals and helped to disintegrate and weaken his Party.

A further addition to the revenue, with some saving of expenditure, was to be obtained through higher postal charges. The letter rate was increased to 1*d.* for one ounce (instead of 1*d.* for four ounces); the halfpenny post for circulars was abolished; the charge for a telegram was raised from 6*d.* to 9*d.*; the rates for press telegrams were increased; and other changes were made, the total effect of which was to benefit the Exchequer by £2 millions that year, and £5 millions in subsequent years.

This Budget came in for a good deal of criticism, most of which was directed against the so-called 'McKenna Duties'. Labour members, as usual, objected to any taxation which would be paid by the wage-earning classes, though Mr. Barnes, giving the views of the Party after it had discussed the Budget privately, admitted that 'We have not felt the War at home so far, . . . all sorts of people have been fully employed'. Sir F. Banbury complained that wages had been raised beyond all reason; he thought that these increases were just as much a war profit as the profit made by a manufacturer. Farmers, too, were making large profits through the rise in food prices; but they were exempted from the excess profits duty on the

¹ It is difficult to believe that the duty on watches was imposed to save ship space, or indeed for any other purpose than the protection of English watch-makers.

ground that they did not keep accurate accounts. This was also the reason for not assessing income-tax on their actual profits; but it was a very bad reason, since it reversed the legal principle that a man may not plead his own *laches*.

During the Budget debates, Mr. Sydney Arnold agreed that the revenue was still inadequate, since the permanent expenditure after the War could not be less than £357 millions. Sir J. Walton put the case for higher taxation by saying that 'the nation as a whole does not recognize the need for rigid economy; it is a case of "Pleasures as usual", every music hall in every town, every cinema show is crowded to overflowing; more is being spent on drink than was ever spent in the history of the country. I wish with all my heart that the Government had put another stiff duty on whisky'.

The third War Budget deserves commendation as the first real attempt to put national war finance on a sound basis. It was very successful as a producer of revenue, and undoubtedly it saved the pound from sinking to a level which would have meant the confiscation of a large part of the pre-war savings of people with moderate means. Had a similar measure been brought in five months earlier, the cost of the War, and the War debt, would have been less by hundreds of millions. Chancellors in the period after the War would also have had smaller difficulties to face.

Mr. McKenna's estimates for the year proved to be fairly accurate, if allowance is made for the difficulties of estimating expenditure during such a war, and of computing the effects of so much new taxation. The actual expenditure for the year 1915-16 was £1,559 millions, or £31 millions below the estimate; and realized revenue was £337 millions, or £32 millions above the estimate, a satisfactory result due largely to the patriotic promptitude with which people paid their taxes. The deficit for the year was thus £1,222 millions, instead of the £1,285 millions which had been estimated.

The Fourth War Budget—April 1916

ESTIMATES FOR 1916-17

(in £ millions)		
Ordinary Expenditure	225	Revenue
War Expenditure	1,600	To be borrowed
	1,825	

499
1,326

1,825

When Mr. McKenna introduced his second Budget—the fourth of the War Budgets—on April 4th, 1916, he was able (as we have seen) to announce that the actual expenditure for the year just closed was £1,559 millions, or £31 millions below his estimate of September 1915. There had been a saving on advances to the Allies and the Dominions. But for the coming year he reckoned on a total expenditure of £5 millions a day which would amount to over £1,825 millions.

The appalling deficit on the previous year of £1,222 millions had been met by issues of War Loan, Exchequer Bonds, and Treasury Bills, with the result that the pre-war debt of £650 millions had risen on March 31st, 1916, the last day of the financial year, to £2,140 millions. But the whole of this prodigious sum was not permanent dead-weight debt, since loans to our Allies and Dominions amounted to £368 millions. Mr. McKenna's assumption that they would all be repaid was a piece of optimism which even at that time was not shared by some competent critics.

The estimates shown in the table above are, as in other cases, the original Budget estimates for the year. The item for 'ordinary' expenditure practically excludes the Fighting Services, since only token votes (£15,000 for the Army, £17,000 for the Navy, and £1,000 for the Ministry of Munitions) were included. Yet, excluding these services, which cost £77 millions before the War, the total of £225 millions was much greater than the pre-war estimates, owing to the heavy increase which had already accrued in the debt charge. The estimate of revenue, £499 millions, was the original Budget estimate; but this was raised to £502 millions by the changes subsequently effected in the proposed taxation. Mr. McKenna calculated that the charge for new debt to be created in the year 1916-17 (5 per cent. for interest and 1 per cent. for sinking fund) would be £79 millions, and in order that the revenue should cover this charge, he imposed new and additional taxation estimated to yield £73 millions.

To advocates of even heavier taxation than he proposed, Mr. McKenna replied that it would be unwise to press too hard on the prevailing spirit of sacrifice. 'The ability and willingness of our people', he added, 'to bear the burden of taxation have established our national credit on an unshakable foundation.' In framing his proposals, he had been actuated by three principles: first, to raise

sufficient revenue to meet current obligations; secondly, to make as large a contribution as possible towards the cost of the War; and thirdly, to distribute the burden of taxation fairly over the whole community.

His first addition to taxation was an increase of the excess profits duty from 50 to 60 per cent. From this he expected to get £86 millions, including £11 millions due to the present increase in the rate of the duty. The standard rate of income-tax was raised from 3*s.* 6*d.* in the pound to 5*s.* in the pound; and as the increase would fall most heavily on the larger incomes, he did not add to the rates of supertax. Money incomes had been rising with currency inflation and more people had become liable to income-tax. Consequently he anticipated over £43 millions from this change.

In his second Budget Mr. McKenna had several new taxes to propose. One, the entertainment tax (estimated to produce £5 millions) was suggested, no doubt, by record attendances at theatres, cinemas, football matches, and horse races. A second, on railway tickets, was dropped after some discussion. More important was an addition of one halfpenny per pound to the sugar duty, accompanied by increases in the tariff on cocoa, coffee, and chicory. A tax on matches had been introduced some forty years before by Robert Lowe, when he was Chancellor of the Exchequer in Mr. Gladstone's first administration; but the match-girls had demonstrated against it successfully. Now, however, a tax on matches, and on mechanical lighters, was imposed and met with little criticism except in regard to the practical difficulties involved. New duties were also levied on table-waters, cider, and perry. Motor-cars and motor-cycles offered an obvious target to the Chancellor, who proposed to double the licence duty on the smaller cars and to treble it on those exceeding 16 horse-power. At a later stage, however, this proposal was abandoned and was replaced by a duty of 6*d.* a gallon on motor spirit. There was still no increase in the duty on drinkable spirits.

By these changes in taxation, and the general expansion of revenue, the estimated revenue was raised to £500 millions. It was regarded as a huge sum at the time, being nearly thrice the recent pre-war total. An income-tax of 5*s.* in the pound would have been thought incredibly high two years earlier. The nation was now beginning to feel the cost of the War; but though prices were rising

and many were severely hit, there was little protest; for those at home were thinking of the suffering of the men at the front. Indeed, the sharpest criticism of the Budget was directed against the Chancellor's failure to raise the spirit duty. Mr. Leif Jones (now Lord Rhayader) pointed out that the consumption of spirits had risen from $31\frac{1}{2}$ million gallons in 1914 to 35 million gallons in 1915, whereas the consumption of beer had fallen from $45\frac{1}{4}$ million barrels to 31 million barrels.

On July 17th Mr. McKenna asked the House of Commons to give the Finance Bill a third reading, immediately following the report stage. The reason for expediting procedure was that the total expenditure had by then increased from £5 to £6 millions a day, and his borrowing powers were almost exhausted. The proposal was agreed to, and two days later the Bill passed all its stages in the House of Lords and received the Royal Assent. In the House of Commons, however, there were violent protests from a minority including Sir Edward Carson, who made objections to the departure from the customs of the House; and at this time the political situation became increasingly difficult. Before the end of the year Mr. McKenna was to lose office along with Mr. Asquith, when Mr. Lloyd George formed the second Coalition Government.

Mr. McKenna could claim, however, that he had rescued the finances of the country from the deplorable state in which his predecessor at the Exchequer had left them. His two Budgets not only raised much additional revenue in the years they covered, but also introduced the main additions to old and new forms of taxation, which provided most of the revenue for financing the remaining two years of the War and prevented it from ending in national insolvency.

In the year 1916-17 even Mr. McKenna's estimate of revenue was exceeded, and the actual total reached £573 millions. Furthermore, the existing taxes were expected to produce an additional £39 millions in the next year, making a total of £612 millions.

In the year 1914-15 the realized revenue was only £226 millions, and so Mr. McKenna's additions amounted to nearly £400 millions. On the other hand, the realized expenditure in 1916-17 was £2,198 millions, and the deficit on the year was £1,624 millions, or nearly £300 millions more than had been anticipated. This unfavourable result was entirely due to the fact that the War expenditure had

reached the enormous total of £1,973 millions, which was £373 millions above the estimate. The National Debt now stood at £4,000 millions.

The Fifth War Budget—May 1917

THE ESTIMATES FOR 1917-18

(in £ millions)

Ordinary Expenditure	315	Revenue	638
War expenditure	1,975	To be borrowed	1,652
	<u>2,290</u>		<u>2,290</u>

Mr. Bonar Law, who as leader of the Conservative Party was a prime mover both in the overthrow of Mr. Asquith's Administration and in the formation of the second Coalition Government, became Chancellor of the Exchequer, Leader of the House of Commons, and a member of the War Cabinet in Mr. Lloyd George's Administration. These positions left him no sufficient time for his financial duties, and his first Budget, introduced on May 2nd, 1917, was a poor affair. The entry of the United States into the War had, however, eased the financial position so considerably that in the estimates for the coming year a reduction of £150 millions was made in respect of advances to the Allies. America had promised the most liberal financial credits, but unfortunately these credits proved to be loans, not subsidies. Moreover, they were made chiefly to Great Britain (as being the most solvent debtor), although the supplies of food, munitions, &c., went mainly to our continental Allies.

Mr. Bonar Law estimated the total expenditure for the year at £2,290 millions, or approximately £6¼ millions a day. He accepted his predecessor's policy of providing sufficient permanent revenue to cover ordinary expenditure and debt interest with an allowance for debt redemption. Had the existing taxes been sufficient for this purpose, he would have proposed no additions; but as the debt to be incurred during the year would involve an augmented charge of over £40 millions, he felt bound to impose additional taxation. To obtain the revenue required, he proposed additions to three existing taxes.

First, the excess profits duty was raised from 60 per cent. to 80 per cent. At the same time, the munitions levy in its old form (introduced in 1915 to limit the profit of munition factories to 20 per cent.) was abolished and merged into the E.P.D. Next came

an increase of the entertainments tax; and thirdly, the tobacco duty was raised by a further 1*s.* 10*d.* to 7*s.* 4*d.* per lb.¹ The net effect of the tax changes was an estimated gain to the revenue of nearly £25 millions.

The increase in the excess profits duty to 80 per cent.—the level at which it remained until 1919, when it was reduced—has been criticized as excessive. The Chancellor sought to justify it by an argument which was not quite relevant—‘I cannot consider it unfair, or consider that any one is badly used, if he gets a larger income during the War than he got before.’ But, as we have seen, the duty applied to a business, not to a man’s income. Many individuals had increased their income enormously without becoming liable to the duty. Mr. Bonar Law would not even ask farmers to pay anything, though they were obviously making money out of the War, and making it easily. His excuse was that farmers kept no account books; but as Mr. Wiles, a leading corn merchant, pointed out, they could produce books and figures easily enough if they had any claims to make on the Exchequer!

Mr. McKenna thought it unwise to raise the E.P.D. to 80 per cent., but agreed with Mr. Bonar Law’s proposal to incorporate the munitions levy in the duty. Apparently the levy had been a failure from the revenue point of view. Another critic, Mr. J. R. Clynes, approved of the 80 per cent. E.P.D., but complained of its application to co-operative societies. Mr. J. A. Bryce foresaw that one result of the E.P.D. after the War would be to deprive companies of necessary working capital. Another critic, Mr. Sydney Arnold, maintained that taxation was not heavy enough to meet expenditure when the War came to an end. Colonel Godfrey Collins, who agreed with Mr. Arnold, calculated that only 19 per cent. of the war expenditure had been met from revenue.

In reply Mr. Bonar Law maintained that he was raising enough revenue to make accounts balance after the War; nor would he admit that the Allies might be unable to pay interest on their loans. He paid a tribute to ‘the readiness with which people have borne taxation of a weight which has never been known before in the old days, and which could not be imposed in any other country on the same scale’. He recognized that the excess profits duty would ‘inevitably have a very bad effect on trade after the War’.

¹ A few months later half the increase in the tobacco duty was remitted.

On May 8th, before the Finance Bill had been passed, Mr. Bonar Law asked for a Vote of Credit for £500 millions. Expenditure, he said, had greatly exceeded his estimate of February 12th, when he had asked for £350 millions. As an instance of happy-go-lucky finance and the slack control over expenditure, we find Mr. Bonar Law admitting that we had recently been spending nearly £7½ millions a day, whereas only a week earlier he had estimated the daily expenditure for the whole year at about £5½ millions. After looking into the question he discovered that we had been lending £2 millions a day to the Allies and the Dominions, and we were also paying the expenses of the Dominions' forces before the money was paid to us by the Dominion Governments.

Several critics urged that income-tax at the rate of 5s. in the pound was not high enough, and would soon have to be raised, as in fact it was raised (to 6s. in the pound) in the following April. Most incomes (on paper) had been swollen by the lavish expenditure of borrowed money. Mr. Philip Snowden repeated the Labour demand for 'conscription of wealth' to match the conscription of lives. Colonel Godfrey Collins complained that taxation was not heavy enough, since the Chancellor was throwing a permanent charge upon the country for debt greater than the amount he was raising by taxation. Shipowners complained of the excess profits duty; but they had received better treatment than railway shareholders, who obtained no war profits at any time and saw their property going to rack and ruin under Government control.

The outcome of this Budget was profoundly unsatisfactory. The actual expenditure for 1917-18 was £2,696 millions, of which £2,403 went in votes of credit for the War. Thus the expenditure exceeded the estimate by no less than £406 millions—part of which, however, was offset by the large stores of foodstuffs which had been purchased but not consumed. Some of the increase was due to the fact that advances to the Allies had exceeded expectation: they had borrowed £500 millions from this country, as well as £450 millions from the United States. We in turn had borrowed from the United States almost as much as we had lent to the Allies, an arrangement that was to cost us dear in later years.

The actual yield of the revenue was £707 millions, compared with an estimate of £638 millions. The excess was entirely due to E.P.D., which yielded £80 millions more than the estimate. The

Chancellor of the Exchequer was in the end justified to the extent that more than a quarter of the year's total expenditure was defrayed out of revenue.

The Sixth War Budget—April 1918

THE ESTIMATES FOR 1918-19

		(in £ millions)		
Ordinary Expenditure	.	422	Revenue	842
War Expenditure	.	2,550	To be borrowed	2,130
		<u>2,972</u>		<u>2,972</u>

On March 21st, 1918, the great German offensive was launched against the British Fourth and Fifth Armies. The British line had been weakened by the dangerous policy of sending troops to Italy and more distant theatres of war; whereas the Germans, following the collapse of Russia in 1917 and the Treaty of Brest-Litovsk, were able to send large reinforcements to the Western front. America had not yet put her full military strength into the War, though her Army was rapidly expanding; and Germany made a desperate effort to break through and win a decisive victory before it was too late. During the five weeks of this attack, the British troops suffered 350,000 casualties, and England passed through the most trying period of the War. It was in these circumstances that Mr. Bonar Law introduced the sixth War Budget on April 22nd, 1918. His first Budget had been feebly conceived, owing no doubt to his pre-occupation with other matters; but this time he rose to the occasion. The people and the Press were ready for almost any sacrifice, and his Budget—heavy as was the new taxation it imposed—met with general approval. The subsequent debates revealed few criticisms, and little attention was paid to them owing to the intense anxiety about the military situation. The new tax burdens were as nothing to the losses of our armies in France.

Expenditure for the year was estimated at £2,972 millions which would be nearly £300 millions above the actual expenditure in the previous year, being calculated at a rate of over £8 millions a day. Included in this total were £300 millions for loans to the Allies and £50 millions to the Dominions. The debt charge was estimated at £315 millions. Of this £53 millions was allowed for new debt to be contracted during the year, which was approximately equal to the yield of a shilling on the income-tax.

Mr. Bonar Law again referred to the principle adopted by Mr. McKenna, that the permanent revenue should be adequate to cover the estimated post-war expenditure. He placed the peace expenditure, excluding the debt charge, at £270 millions—an estimate much criticized at the time, which proved to be far too low—and the debt charge at £380 millions, making a total of £650 millions. As it turned out, the lowest post-war expenditure, that of 1923-4, totalled £789 millions; but Mr. Bonar Law could not have foreseen the extravagant policies which were shortly to become the fashion in the post-war era, though he himself was to be largely responsible for their adoption.

His method of arriving at the estimate of £380 millions for the post-war debt charge contains several points of interest. He estimated that the National Debt would amount to £7,980 millions on March 31st, 1919.¹ From this total, he deducted one-half of the debts due from the Allies—a too hopeful calculation—namely £816 millions, and the full amount due from the Dominions, namely £244 millions, and £64 millions promised by India. This left a net debt of £6,856 millions, and on the basis of 5½ per cent. for interest and sinking fund, this would entail a charge of £380 millions.

The permanent revenue on the existing basis of taxation would yield only £540 millions, and therefore an additional £110 millions were needed to keep within the rule laid down by Mr. McKenna. Mr. Bonar Law announced that he would impose taxation to bring in £114 millions in a full year, and £68 millions in the year 1918-19. Thus he hoped to raise the total estimated revenue for the year to £842 millions, leaving £2,130 millions to be borrowed—a sum more than three times the total pre-war debt. At the same time, however, the revenue had been increased fourfold within four years—a feat which no other country approached. It was facilitated of course by inflation and the spending of borrowed money. But even in depreciated paper pounds it represented an enormous burden of taxation imposed at successive stages while the production of normal wealth was falling rapidly. It showed, moreover, how strong and well laid were the foundations of Britain's pre-war fiscal system, and how immense were the accumulations of capital which the

¹ Owing to the termination of the War, it actually fell short of this figure at that time, but it reached £7,829 millions on March 31st, 1920.

nation possessed at the outbreak of war—far surpassing indeed the estimates of our financiers and economists.

Mr. Bonar Law calculated that the total war revenue—meaning the amount in excess of the old peace revenue of £200 millions a year—raised in the five years ending March 31st, 1919, would amount to £1,686 millions. He also estimated that at that date, there would be realizable assets in hand worth £670 millions, and that, even if the excess profits duty were continued for only one financial year after the War, it would yield a further £500 millions. These estimates subsequently proved substantially accurate. None the less, the nation was to be left with a debt of considerably more than £7,000 millions, a burden which would be aggravated by a rapid and severe decline in prices. After the War all our continental Allies and enemies confiscated their debts wholly or partly by inflation; whereas in Great Britain the debt burden was increased by deflation and those who had invested in war loans found some compensation for the heavy addition to the taxation on their incomes and consumption.

The new taxation imposed in the Budget of 1918 took a wide variety of forms, including almost every important source of revenue except the death duties. 'It is', said Mr. Bonar Law, 'our duty to levy as much taxation now, to make us bear as much of the current expenditure of the war as can be borne by the nation without weakening us in the conduct of it.'

The standard (or maximum) rate of income-tax was raised from five to six shillings in the pound, and the rates on all incomes above £500 a year were increased. Mr. Bonar Law explained that he made no change affecting the lower incomes, because there were to be considerable additions to indirect taxation. Supertax was also increased, both by reducing the exemption limit from £3,000 to £2,500, and by increasing the scale, so that the maximum rate became 4*s.* 6*d.* in the pound instead of 3*s.* 6*d.* A man with £50,000 a year now had to pay slightly more than half his income to the Government in income-tax and supertax combined. At the same time there were some concessions to small incomes. An allowance for income-tax purposes of £25 was granted for the first time for a wife or dependent relative, provided that the taxpayer's income did not exceed £800; children's allowances were extended and an allowance was given for wear and tear in factories, mills, &c.

Farmers were now required to pay a substantial amount of income-tax. Their assessment was raised to double their rent, which meant a great deal more than doubling their payments, since it brought in a great many new tax-payers, and raised the rate payable by the old. In 1913-14 a tenant farmer, who had a wife and three children and was rented at £500 a year, would have paid nothing; in 1915-16 he paid £29 5s. 0d. on a net assessment of £325; for the next two years his tax was £36 11s. 3d. on the same assessment. Mr. Bonar Law's second Budget raised his assessment at one bound to £1,000 and his tax to £150 a year.

The changes in income-tax and supertax were estimated to bring in a net increase of £59 millions in a full year. A further £55 millions were to be obtained from indirect taxes. Very large additions were made to the spirit and beer duties, the first being raised from 14s. 9d. to 30s. per proof gallon and the second from 25s. to 50s. per barrel. These two increases would bring in nearly £27 millions in a full year. Smoking had become more general than ever. Dear tobacco had not stopped the increase of consumption; so Mr. Bonar Law proposed to raise the duty on tobacco from 6s. 5d. to 8s. 2d. per lb. Tobacco was a controlled commodity; the controlled price would be raised by 2d. an oz., and the increased duty was expected to bring in £8 millions a year. A small addition was made to the match tax, raising the price to 1d. a box. An addition of 11s. 8d. a cwt. was made to the sugar duty, raising the price from 5½d. to 7d. a lb. and bringing in £13 millions a year.

While all these additions were being made to indirect taxes, a subsidy had been given to keep down the price of bread, which (as the Chancellor pointed out) came to 'more than the total of the additional indirect taxation'. It might have been wiser to lower the bread subsidy instead of raising the sugar duty.

During his financial statement the Chancellor paused to discuss the project of a new impost on the lines of the French luxury tax. The French tax was at the rate of 10 per cent., but was coupled with a turnover tax. The Chancellor favoured a tax of 2d. in the shilling (16⅔ per cent.), but included no estimate of its probable yield. Nor did he attempt to draw up a schedule of 'luxuries'. In France the tax was levied on articles like jewellery which were luxuries whatever their price, secondly, on clothes and other things which became luxuries if their price exceeded a defined figure,

and thirdly, on hotels and other luxury establishments. A Select Committee was set up to examine the proposal and to make a classification of luxuries. At a later stage the tax was deferred until the Committee reported; and in the end the project was abandoned.

Other additions to the revenue were obtained by further increases in postal charges. The rate on letters was increased to $1\frac{1}{2}d.$ and on postcards to $1d.$ The charge for parcels was also increased. Also, the stamp duty on cheques was doubled from $1d.$ to $2d.$ These increases, despite many protests made at the time and since, were still in force in 1933.

During the Budget debates there was an interesting discussion on the capital levy put forward by the Labour Party and by some Liberals. Mr. Sydney Arnold argued that the proposed taxation would not be enough to cover our post-war expenditure; the only alternative he could see to $7s. 6d.$ in the pound income-tax was a levy on capital. His plan was to presume that every one was financially dead at a given date, when the capital levy would be applied like the death duties. The levy would be paid in two instalments, being graduated so that a man worth £25,000 would pay £1,500 at each levy. By the two levies he hoped to raise £6,000 millions, thus reducing the National Debt to £2,000 millions. This calculation was based on an estimate that the taxable capital of the country was about £24,000 millions, which was probably a large over-estimate, even allowing for the effects of inflation and including the National Debt. Many Liberals as well as Socialists favoured a capital levy at this time; but the opportunity for it had passed when deflation and trade depression began in 1921.

There was no real opposition to the Budget. Mr. (now Sir Herbert) Samuel did, however, draw attention to the 'all-round deficiency of financial control'. A part of the colossal increase of expenditure was due to factors—e.g. profiteering—which the Government might have limited; and he appealed to the House to make continuous efforts to restrict extravagance. In all departments money was being poured out like water, and there was no such thing as effective Treasury control. Mr. Baldwin, then joint Financial Secretary to the Treasury, admitted that there had been 'an orgy of extravagance', indeed it had been doubtful 'whether the Government or the extravagance would come out on top'.

The authors of *British Budgets* conclude their account of this Budget by remarking:

‘Fortunately the year which had opened so dismally brought with it peace, or at all events the cessation of hostilities. The huge expenditure estimates, totalling £2,972 millions, were destined never to be realised, the actual Exchequer issues being less than in the previous financial year. Although expenditure had thus touched high-water mark, the process of contraction, beyond a certain point, was of necessity gradual. On the other hand, taxation, as we shall see, continued its upward flight for some time to come.’

The realized expenditure for the year 1918-19 was £2,579 millions. Only about £400 millions of the estimated expenditure was saved through the ending of the Great War in November 1918—four months before the close of this financial year. The realized revenue, at £889 millions, was £47 millions above the Budget estimate.

From the taxpayers’ point of view the War period was by no means over. Small but costly wars continued in Russia and the Middle East. Demobilization was slow and expensive. Many extravagant commitments had to be met. The Government went on wasting money so long as the short post-war trade boom lasted, and only began to desist when a cold fit of economy seized the nation on the appearance of the post-war slump and unparalleled unemployment. These events will be described in the next chapter, and I will bring this one to a close by recording the fact that, during the five actual war years, the total expenditure of the United Kingdom amounted to no less than £9,593 millions; of this total rather more than 28 per cent. (£2,733 millions) was defrayed out of revenue.

CHAPTER II

THE WAR LIQUIDATION BUDGETS, 1919-1922

THE Armistice was signed on November 11th, 1918, to the general relief and jubilation of the people. The whole nation, male and female, old and young, militarist and pacifist, Communist and Tory, was momentarily united; and for a short time, in excusable circumstances, the traditional British phlegm gave place to almost hectic rejoicing.

Without waiting for the prevailing excitement to subside, and giving no opportunity for calm deliberation, the Coalition Government decided upon an immediate general election. On November 22nd, 1918, Mr. Lloyd George and Mr. Bonar Law issued a joint manifesto to the electorate. 'The unity of the nation, which has been the great secret of our strength in war,' they said, 'must not be relaxed'; and they appealed 'to every section of the electorate, without distinction of party, to support the Coalition Government in the execution of a policy devised in the interest of no particular class or section, but, so far as our light serves us, for the furtherance of the general good.' At the ensuing election, a joint recommendation from Mr. Lloyd George and Mr. Bonar Law, generally called the 'Coupon', was given to all candidates who would give unconditional support to the Coalition. I have dealt more fully with the results of this election in an earlier chapter; it is enough to say here that a huge majority of the Coalition candidates was returned to Parliament, and that nearly all the leading critics of the Government were defeated. To the election of a Parliament in such circumstances Great Britain owed not only the worst features of the Peace of Versailles, but most of the financial blunders of the immediate post-war period. The Coalition Government remained in office until 1922, when it fell, unregretted by any but those personally associated with it. The four Budgets introduced in this Parliament form the subject of the present chapter. They cover what may be described as the War liquidation period.

As will be seen, the first two of these Budgets imposed far heavier taxation than had been levied during the actual period of the War. It will be remembered also that the first two Budgets introduced during the War (November 1914, and May 1915), failed to impose

any considerable burden of taxation at all. In both cases the 'time-lag' was seen, the long interval between action and reaction. In 1914 and 1915, though the nation knew that the War would entail financial sacrifices, a long time passed before it acted upon that knowledge; but there are degrees of consciousness, and in public, as in private, affairs people often know that they ought to pursue a certain course long before the knowledge possesses them fully enough to move them to action. So, after the War ended, two years passed before the nation fully realized that it could demand a reduction of taxation, and a resumption of economical spending on the part of the State. Not until the trade depression came did the people at large begin to realize that the War had left the country far poorer than it was in 1914, and that the period of paying back the borrowed money was going to be far less pleasant from a financial point of view than the period of borrowing. Certainly few foresaw in 1919 how great and how prolonged would be the financial effects of the War.

The direct expenditure upon the War and the consequent burden of debt interest were alone sufficient to produce far-reaching effects upon the finances of the country; but, in addition, there was a costly extension of State activity in the period immediately following the War as well as much military extravagance; and the expansive notions of politicians, who lost all sense of proportion, added enormously to the great load of expenditure for which the nation has since had to provide.

The Budget of 1919

ESTIMATES FOR 1919-20

(in £ millions)

Expenditure	1,435	Revenue	1,201
		To be borrowed	234
			1,435

In Mr. Lloyd George's newly formed Coalition Government, Mr. Bonar Law became Lord Privy Seal and Leader of the House of Commons. He was succeeded as Chancellor of the Exchequer by Mr. (afterwards Sir) Austen Chamberlain, and Mr. Stanley Baldwin, who was to become Prime Minister a few years later, became Financial Secretary to the Treasury. Mr. Austen Chamberlain,

who had previously been Chancellor in 1904 and 1905, introduced his third Budget on April 30th, 1919.

His position was, as he said in the Budget speech, far from enviable. The National Debt, which stood at £650 millions before the War, amounted on March 31st, 1919, to £7,435 millions. The war expenditure did not end with the War; money was still required for demobilization, for gratuities, and other allowances. Ambitious plans for making the 'land fit for heroes to live in' were in the air. At the same time multitudes of people who had been told by Coalition candidates at the election that Germany would be made to pay the cost of the War were, naturally enough, demanding reductions of taxation.

Mr. Chamberlain estimated the expenditure for the year at £1,435 millions, and revenue on the existing basis of taxation at £1,160 millions including £200 millions from the sale of war stores. There was thus a prospective deficit of £275 millions, and borrowing would now be more difficult owing to the demands of industry for capital. The Floating Debt, amounting to £1,412 millions, was also a serious embarrassment. Then there was the problem of money. During the past year the currency note issue had been inflated from £228 millions on April 1st, 1918, to £349 millions on April 23rd, 1919; and the Bank of England had increased its own note issue by £23 millions. Meanwhile the gold reserve had remained stationary at £28½ millions.

Turning to the future, Mr. Chamberlain estimated that in a normal year expenditure would be reduced to £766 millions; but revenue on the existing basis would not exceed £652 millions. He therefore proposed to levy increased taxation estimated to yield £109 millions in a full year. In the current year, however, the net addition to the revenue was only £41½ millions, making a total of £1,201 millions. This left £234 millions to be borrowed.

To start with, the Chancellor announced that he would forgo two sources of revenue. The first was the land values duties which had, he said, become unworkable. They were to be considered by a Select Committee—a move which was understood to be a polite preliminary to their burial. Mr. Chamberlain stated that Mr. Lloyd George, who had imposed these duties in 'the People's Budget' of 1909, was in entire agreement with the policy to be pursued. Secondly, he said that the excise duty on motor spirit

would be abolished, and a Committee would be appointed to consider the repeal of the customs duty on petrol and its replacement by a graduated licence duty on motor vehicles. This last proposal was open to strong objections, because petrol consumption is a fair measure of the use of a motor vehicle and of the wear and tear which it causes to the roads.

Mr. Chamberlain then mentioned a political change of the first magnitude, the introduction of Imperial Preference, an innovation which was stoutly resisted by the few independent Free Traders who had survived the 'Coupon' election. There were in existence three kinds of duties to which preference might apply: (1) the McKenna Duties, (2) the duties on tea, sugar, tobacco, &c., and (3) the duties on beer, wine, and spirits. Mr. Chamberlain proposed a preference of one-third on the McKenna Duties. He could only offer a concession of one-sixth on the second class, because the existing duties were very high. Coming to the third class, he ignored beer because there was no importation of Colonial beer. On wines the existing duty was 1s. 3d. a gallon on the lighter wines and 3s. a gallon on the heavier wines. He offered 6d. on the lighter wines and 1s. on the heavier. Wines imported in bottle were subject to an extra 1s. a gallon on still wine and 2s. 6d. on sparkling; he offered preferences of 6d. and 9d., respectively. Spirits could not be treated in this way, since the excise duty brought in a large revenue; so Mr. Chamberlain decided to give a preference at the rate of 2s. 6d. a gallon, 'not by a reduction in the duty on Colonial spirits but by an increase in the duty on foreign spirits'.

Before coming to his new taxation he announced that the proposed luxury tax would be dropped. War-time control on the sale of intoxicants had been relaxed after the Armistice, and the trades concerned had been making increased profits. Mr. Chamberlain increased the spirit duty from 30s. to 50s. per gallon, which would make the price per bottle 10s. 6d. and should bring in nearly £22 millions in a full year. On beer he raised the duty from 50s. to 70s. a barrel, it being understood that the brewers would recoup themselves through the larger output now permitted without raising their prices to the public. This increase was expected to bring in £31 millions in a full year.

While the War and the post-war boom lasted, the excess profits duty brought in a large amount of revenue. But it had certainly

encouraged wasteful expenditure. Moreover, a rate of 80 per cent., as Mr. Chamberlain admitted, acted as a deterrent to enterprise and industry, and he therefore lowered the rate from 80 to 40 per cent. He estimated the yield at £50 millions in future years, but owing to arrears outstanding, he hoped to collect £300 millions in the current year. Death duties had not been raised during the War, partly because it seemed unjust to raise a tax which might be levied on the heirs of men who had been killed. Now, however, Mr. Chamberlain thought that the rate of tax on the larger estates, i.e. above £15,000, might be raised. He made the graduation much steeper, so that an estate of half a million would pay 25 per cent. instead of 16 per cent., and above two millions it would pay 40 per cent. This was an enormous tax, and when taken in combination with the income-tax, it formed a further differentiation between 'earned' and 'investment' income. In fact a Conservative Chancellor was putting into force something very like the 'conscription of wealth' which the Labour Party had been advocating.

In the Budget debates Sir T. P. Whittaker pointed to another change in the distribution of the national income caused by the War, i.e. the increased share taken by wage-earners. Wages had risen by between £800 and £1,000 millions, while the larger salaries, e.g. those of judges and Cabinet Ministers, had been cut down by income- and supertax from £4,700 net to £3,212 net, though money had lost nearly half its purchasing power during the War.

Concluding his Budget speech, Mr. Austen Chamberlain said: 'I am grateful that it has fallen to my lot to make the first proposal in this House for the statutory embodiment in our financial system of that policy of Imperial Preference with which my father's name and fame will ever be linked.' These preferential tariffs, though unimportant financially (they cost the Exchequer about £2½ millions) attracted more interest than any other feature of the Budget, and were of great political significance. The Independent Liberals moved the rejection of the Finance Bill on the ground, among others, that it initiated a new system of Preference for the Empire and of discrimination against foreign countries. Lord Hugh Cecil, in one of the more striking speeches of the debate, said that human prosperity was indivisible throughout the world; that was his great objection to all protectionist theories in international trade.

Many other criticisms were made. One concerned the excessive taxation of beer, which had been raised by 800 per cent. since 1914, while the taxation of spirits had been raised by 238 per cent. only. A Lancashire member complained that the Indian Government had been allowed to put on a protective tariff against Lancashire at a time when Mr. Chamberlain himself was Secretary for India. Mr. (now Lord) Arnold criticized the whole system of taxation and expenditure, arguing that even with the increases just announced there would be a Budget deficit of more than a hundred millions. He foresaw increased expenditure on social services such as housing, pensions, roads, and education. His remedy was a levy on capital. A telling argument against the capital levy was advanced by Lord Hugh Cecil. If such a levy was possible, he said, 'we need not make it in this country; it should be quite easy to make it in Germany'. Currency inflation, he added, bore most heavily on possessors of wealth. There was no real remedy except economy, but Members of Parliament, he felt sure, would oppose every specific proposal for saving public money.

Perhaps Lord Hugh Cecil was too pessimistic; for a little later, on July 8th, the Government was actually beaten on the question of economy. Mr. Rawlinson carried an amendment cutting down the number of Under-Secretaries in a Bill from two to one.

Speaking for the Liberal Opposition in the House of Lords, Lord Crewe strongly opposed the Preference proposals, which he suggested were intended to lead the way to a general tariff. In regard to food taxes, he said that the Labour Party was in agreement with the Liberals; but beyond that he had his doubts. He felt that devotion to State control brought the Socialist and the Protectionist very close together. Quoting Bastiat, he defined a Protectionist as 'nothing but a Socialist with an income of 50,000 francs a year'.

In some of its main features this Budget resembled the War Budgets. It was uncertain in its estimates, and marked by an even larger deficit than had been anticipated. In October 1919 the Chancellor revised his estimates, bringing expenditure up to £1,642 millions, and revenue down to £1,168 millions. Sir Bernard Mallet has pointed out that, on a different system of accounting, the deficit might have been put at £800 millions.

The actual results for the year were not quite so bad as those

expected in October. Expenditure was indeed even greater than the revised estimate, reaching the huge total of £1,666 millions. The realized revenue, however, amounted to £1,340 millions, and so the actual deficit on the year was £326 millions, which was £92 millions more than the original Budget estimate, but £148 millions less than the revised estimate.

During the year the National Debt was increased not only by the amount of the deficit, but also by ill-considered conversion schemes, which without affording any appreciable relief for interest charge added to the nominal total of the debt; and on March 31st, 1920, it stood at £7,829 millions.

The Budget of 1920

ESTIMATES FOR 1920-1

(in £ millions)					
Expenditure	.	.	.	1,184	Revenue 1,418
Surplus	.	.	.	234	
				1,418	

Mr. Chamberlain introduced his fourth Budget, the second of the War liquidation Budgets, on April 19th, 1920. For the first time since 1914 the estimated revenue exceeded the estimated expenditure, and £234 millions were provided for the reduction of debt. The expected surplus, however, was only arrived at by including £302 millions of 'special receipts' (mainly from the sale of war stores), and by a net increase of taxation estimated to produce £77 millions in the current year, and £198 millions in a full year. So heavy an increase in taxation at this time made this 1920 Budget the most unpopular in the whole series of War and post-war Budgets. Through its failure to restrict expenditure the Coalition Government brought about its own disruption.

Throughout the financial year 1919-20 the post-war boom had lasted, and was still at its height when the 1920 Budget was introduced. The enormous Government expenditure of borrowed money, the inflation of the currency, a rapid rise of wages, and speculative purchases by merchants, in anticipation of a world demand which could not be sustained, had all contributed to the shortlived post-war revival of trade, which recalled the parallel of 1816, after the Peace of Vienna. The abolition of conscription and the gradual relaxation of exasperating controls and war-time

restrictions were all to the good. But the War and a fictitious boom temporarily swept aside all ideas of thrift, and there was an orgy of spending. That this boom would come to an end very soon does not appear to have entered Mr. Chamberlain's mind. His Budget provided for another year of enormous expenditure, and he imposed an immensely heavy new burden of taxation, appropriate, if at all, only to a boom period. He was doubtless encouraged to do so by the growing number of people who had come within the income-tax limits, as shown by the following figures which he gave in the House of Commons:

Year	Number
1913-14 (exemption limit £160)	1,200,000
1914-15 " "	1,240,000
1915-16 " " £130	1,480,000
1916-17 " " "	3,264,000
1917-18 " " "	4,476,000
1918-19 " " "	5,346,000
1919-20 " " "	6,800,000

Many of these were entirely relieved from the payment of tax by the personal reliefs to which they were entitled; but the figures indicate a remarkable growth in money incomes, owing partly to higher wages and salaries, partly to the reduced purchasing power of the pound, which created an illusion of wealth which only existed on paper.

But a collapse was at hand. Even before the Finance Bill had passed all its stages in the summer of 1920, the post-war boom was coming to an end, and the taxpayers' difficulties were soon aggravated by the worst slump in the records of modern trade. Moreover, the willingness to endure taxation that had been manifested during the War had already faded away by the time this Budget was introduced, and people began to clamour for a reduction of their fiscal burdens. But the hope of obtaining huge war indemnities was already seen to be a delusion; it was found difficult to collect from a ruined foe even the cost of the Army of Occupation in Germany.

But there was one resort left—Economy. People began to say that the scale of public expenditure was altogether excessive. The Coalition Government had embarked on a number of 'small wars'—in Russia, where Mr. Churchill had insisted on aiding a series of 'white Russian' generals; in Mesopotamia, where over £100 millions were wasted; in Egypt, and in Ireland, and elsewhere. Again, the fighting services received increases of pay, for which £21½ millions

had to be included in the Estimates, and there were large additions for war pensions, for war bonuses to civil servants, and for extra police grants. Lastly, expenditure was augmented by the continuance of food control. Even those who foresaw an increase of taxation were aghast at the magnitude of the new taxation embodied in the Budget.

Mr. Chamberlain pointed out that, although the expenditure for the year was so enormous, the cost of the Army, Navy and Air Force would be £125 millions, £84 millions, and £21 millions, compared with £405 millions, £157 millions, and £54 millions, respectively, in the preceding year. He also showed that the real expenditure was not increased by the inclusion of an estimate of £43 millions for the Ministries of Munitions and Shipping. He reckoned that the existing basis of taxation would give him £164 millions for the reduction of debt; but this seemed insufficient, since various statutory sinking funds would swallow up more than two-thirds of this amount, while maturing old debt would raise this sum to £160 millions; and so only £4 millions would be left for the reduction of the dangerously large Floating Debt.

Coming to the proposed increases of revenue, Mr. Chamberlain first dealt with postal charges. He pointed out that whereas the Post Office made a profit of £6½ millions before the War, there was now a loss of £3 millions, which would be increased to £11 millions owing to the cost of meeting the claims of the employees for additional wages and bonus. The whole of this loss was to be met by increased postal charges, including an increase in the letter rate from 1½*d.* to 2*d.*, in the minimum charge for telegrams (which was raised from ninepence to a shilling), in the newspaper rate, and in telephone charges.

Turning to taxation proper, Mr. Chamberlain stated that he intended to adopt the proposals of the Committee he had appointed to consider the taxation of motor-cars. The existing system of licences and the customs duty on motor spirit were to be abolished; and there was to be a new system of graduated licences on mechanically propelled vehicles, estimated to produce £8 millions in a full year, which was to be paid to the Road Fund.

The Chancellor then announced the repeal of the land value duties, with the exception of the mineral rights duty. No agreement had been reached by the Select Committee, but it was, he

said, agreed that the duties were unworkable in their present form. Land taxers—disciples of Henry George—were infuriated by the further announcement that the duties which had already been paid were to be refunded. Their only consolation was that the Valuation Department would be retained, because it was useful in connexion with the death duties.

For his main additions to revenue Mr. Chamberlain again looked to intoxicants. He proposed to raise the spirit duty from 50s. to 72s. 6d. a proof gallon, or 2s. per bottle; this should bring in £24½ millions. A still larger sum (£30 millions) was to be exacted from 'the Trade' by another increase in the beer duty from 70s. to 100s. per standard barrel, or one penny per pint. Wine duties, too, were doubled, principally in order to make them keep pace with the duties on spirits and beer, and a further £3,000,000 was expected from this source. An additional duty of 50 per cent. was levied on imported cigars.

A number of stamp duties were increased, including the transfer duty on stocks and shares, which was doubled; and the companies' capital duty was raised from 5s. to £1 per £100.

Since the last Budget, the Royal Commission on Income Tax had published its report, which suggested many alterations intended to make the tax fairer without lowering its yield. Mr. Chamberlain adopted the proposed regraduation, and the recommendations concerning double income-tax within the Empire. The new graduation eliminated the steps and jumps which had marred the symmetry of the income-tax, and it made the tax steadily progressive. Another proposal, which made the tax fairer, was the allowance for marriage and for children; a man with a wife and three children would pay no tax until his taxable income exceeded £360. But there was one unfortunate recommendation in the Report, which Mr. Chamberlain adopted, i.e. the raising of the point of total exemption for an unmarried taxpayer from £130 to £150 a year for earned income, although 'investment' incomes would pay after £135. Income from savings and property was now to be called 'investment income', not 'unearned income'—a somewhat abusive question-begging epithet. It was not at all desirable, nor was it in any way necessary, to reduce the number of direct taxpayers. Income-tax payers were now a small minority among the voters who ultimately determined the policy of the Government. The net

178 THE WAR LIQUIDATION BUDGETS, 1919-1922

effect of the income-tax changes, allowing for abolition of the temporary war reliefs (including the reduced rates of tax on soldiers' and sailors' pay), was a loss to the revenue of nearly £27 millions in a full year. On the other hand, the rates of supertax were increased, so that the maximum rate now became 6s. in the pound, and the exemption limit was lowered from £2,500 a year to £2,000. This increase was estimated to yield £9 millions in the current year.

Then Mr. Chamberlain surprised the House by announcing an increase of the excess profits duty from 40 to 60 per cent. He made various concessions, however, in the manner of assessment; and in the current year he expected the increase to bring in only £10 millions, though he anticipated an additional £90 millions in future years. His estimate for 1920-1 was very nearly realized; but he made the mistake of supposing that the post-war boom would continue. As a matter of fact, the E.P.D. was repealed the next year. It is interesting to recall the history of this remarkable tax during the period of its existence. The various rates at which it was levied, and its actual yield, are shown in the following table:

Year	Rate Per cent.	Yield (inc. arrears)
		£
1915-16	50	140,000
1916-17	60	140,000,000
1917-18	80	220,000,000
1918-19	80	285,000,000
1919-20	40	290,000,000
1920-21	60	219,000,000

After this the yield was very small—it produced only £30 millions in 1921-22.

Though Mr. Chamberlain did not anticipate the ending of the E.P.D. so soon, he proposed another new tax, which he hoped would take its place in due course. This was the corporation profits tax, 'levied at the rate of 1s. in the pound on the profits and income of concerns with limited liability engaged in trade or similar transactions'. The new tax proved ineffective in practice, and was dropped after a few years. Mr. Chamberlain estimated its yield at £35 millions in a full year, or at £50 if the E.P.D. were repealed; but though this condition was fulfilled, the tax only yielded £23 millions in its best year. In 1923 Mr. Baldwin halved the rate of the

THE WAR LIQUIDATION BUDGETS, 1919-1922 179

tax, and in the following year Mr. Snowden abolished it. This tax was not comparable with the E.P.D. as a producer of revenue. In 1920-1 it yielded only £650,000. Its yield in the next six years is shown in the following table:

Year	Rate in the £	Yield (inc. arrears)
		£
1921-2	1s.	17,704,000
1922-3	1s.	18,815,000
1923-4	6d.	23,451,000
1924-5	abolished	18,005,000
1925-6	—	11,705,000
1926-7	—	3,875,000

In subsequent years it yielded further small sums through the payment of arrears.

As has been said, this Budget was extremely unpopular. It imposed new taxation to the extent of nearly £200 millions in a full year, and it marked the high tide of war taxation. It had the effect, on the top of the trade depression which the country now began to experience, of creating a strong demand for economy. The popular press began an 'anti-waste' campaign; Government extravagance became a prominent topic at by-elections; and the Budget debates centred largely upon the need for reducing expenditure.

Mr. Asquith (now returned to Parliament as the result of a by-election at Paisley) described in detail the true functions of the Treasury, and emphasized the duty that lay upon all Departments to avoid unnecessary expenditure. Mr. George Lambert said that, when he first entered Parliament, Sir William Harcourt would have been up in arms against a proposal to spend £100,000; 'now it is not £100,000 but £100 millions; and that hardly turns a hair in the House of Commons'. Even the Conservative supporters of the Coalition strongly censured the Government for its failure to economize. These admonitions may have done something to prevent expenditure from being further increased, but they did not at once succeed in reducing it.

The actual expenditure for the year was £1,195 millions, or £11 millions more than the estimate. The realized revenue was £1,426 millions. Thus there was a surplus of over £230 millions, which was remarkably close to the estimate of £234 millions.

The Budget of 1921

ESTIMATES FOR 1921-2

(in £ millions)

Expenditure	1,040	Revenue	1,217
Surplus	177		
	1,217		

Mr. Bonar Law, who was suffering from ill health, retired from the Coalition Government on March 17th, 1921. He was succeeded as Leader of the House of Commons and of the Conservative Party by Mr. Austen Chamberlain, who thereupon left the Exchequer; and Sir Robert Horne became the new Chancellor. When, however, the time arrived for the introduction of the Budget (April 25th, 1921), Mr. Chamberlain presented it, as Sir Robert Horne was engaged in negotiations with the coal-mining industry. Government control of the mines, assumed during the War, was due to end on August 31st, 1921; but it was suddenly decided, owing to the heavy cost of the subsidy consequent upon control, that de-control should date from March 31st. The miners struck against the reduction of wages, which was inevitable without the subsidy, and an extension of the strike to the railwaymen and transport workers (who formed with the miners the 'Triple Alliance') was with difficulty averted.

In his Budget speech Mr. Chamberlain said: 'The voice is still the voice of Jacob, but the hands are the hands of Esau.' In view of the very brief period during which Sir Robert Horne had been Chancellor a joint responsibility was suspected; but very little credit accrued to the author or authors of this Budget. Its only features were slight reductions in the duty on sparkling wine and cigars, which gave it the name of the 'Champagne and Cigars Budget'. In the course of his speech Mr. Chamberlain said:

'I look back on the two years during which I have been primarily responsible for the national finances not without a certain measure of modest, I hope modest, satisfaction. They have been two years of unexampled difficulty, but in the course of them something has been accomplished. We have reorganized and re-equipped the Treasury, never since I first entered it adequately staffed or properly organized for the work it had to do, and infinitely less so for the immense burden that falls upon it in present-day conditions. We have re-established Treasury control, abandoned, and necessarily abandoned, during the war. We have ceased to borrow. We

have begun to repay debt. The deficit of the first year has been converted into a surplus, and the foundations have been laid for steady recovery when industrial disputes are laid to rest and trade can begin a new revival. Finally, we have wiped off a large portion of our foreign debt.'

This somewhat complacent view was not shared by all observers. Among later critics, Sir Bernard Mallet and Mr. George say in *British Budgets*:

'What the future held none could foretell. At home and abroad, socially and morally, in commerce, industry, and finance, everything was in the melting pot. The financial problems were endless. With a national debt of over seven thousand millions and an annual expenditure five or six times the pre-war level when measured in a depreciated and fluctuating monetary standard, with trade and industry engulfed in an unprecedented depression from which there seemed little hope of emerging for some time to come, with many nations on the verge of war or bankruptcy, or both, the outlook was black indeed.'

Despite these dark prospects, expenditure and taxation were maintained at an excessively high level. The estimated expenditure for 1921-2 was £1,040 millions, which was only superficially disguised by adopting the continental practice of dividing it into 'ordinary' expenditure, which Mr. Chamberlain placed at £974 millions, and 'extraordinary' expenditure, which he placed at £66 millions. This last figure was to cover the cost of liquidating war commitments. Revenue was estimated at £1,217 millions, of which £158½ millions was 'extraordinary', i.e. arising from the realization of war assets. There was thus a surplus of £84 millions on the ordinary account, and of £93 millions on the extraordinary account, making a total estimated surplus of £177 millions. This division of the accounts was not pursued in subsequent years.

There was no addition to taxation, and no remission apart from the taxes on luxuries already mentioned, which were lowered because the revenue from them had not come up to expectation. Account should be taken, however, of the fact that the excess profits duty was not to be renewed. This change had been announced by Mr. Austen Chamberlain, while he was still Chancellor, in a speech at Birmingham on February 3rd, 1921: 'My colleagues and I', he said, 'have been examining as carefully as we can the prospects of the coming year, and we have come to the conclusion that we can afford not to renew the Excess Profits Duty. We shall not extend it beyond the period for which it is operative under the

present law. . . . I see the way not only to abolish E.P.D. but also not to impose any new tax in lieu of it.'

For the year 1921-2, however, Mr. Chamberlain included in his estimated revenue £120 millions from this source—an expectation which was woefully disappointed, since the actual net yield turned out to be only £30 millions. As Sir Bernard Mallet has said:

'The winding up of the excess profits duty emphasized once again the complications and defects of this type of taxation, which by its productivity had become popular during the war in hard-pressed Treasuries throughout the world. In this country the duty was based, broadly, on the principle of taxing the difference between war-time and pre-war profits. It was, therefore, unfitted to form a permanent part of the system, and as the years passed, it became more and more difficult, inexpedient and unjust to base taxation on the level of pre-war profits.'

Referring to the National Debt, Mr. Chamberlain stated that the deadweight debt was £7,829 millions on March 31st, 1920, and £7,573 millions on March 31st 1921, a reduction of £256 millions on the year. Of this, £139 millions had been devoted to the reduction of internal debt, and the remainder to the redemption of foreign debt. The worst part of the debt was the foreign debt, said Mr. Chamberlain, adding: 'Foreign debt is a drain upon our national resources.' On March 31st, 1921, the external debt amounted to £1,161½ millions, a reduction of £117 millions compared with the previous year. Mr. Chamberlain pointed out that it was desirable to redeem as much debt as possible while prices remained above the level they might be expected to reach in a comparatively short time.

He then proceeded to unfold a most extravagant conversion scheme. No doubt Mr. Chamberlain and Sir Robert Horne had ready access to the best advice which the city of London could give; but it is difficult to understand how any prudent man could have suggested the plan which they now brought forward. This was an offer to holders of 5 per cent. National War Bonds of £163 (or slightly less according to the date of maturity of the bonds) of the new 3½ per cent. loan for every £100 of bonds. In order to maintain the market price of the loan a sinking fund, really a sustentation fund, of 1 per cent. of the amount outstanding had to be applied every half-year while the market price remained below 90. The total amount of bonds outstanding to which the offer applied was £632 millions, and if they were all converted the capital would

be raised to just over £1,000 millions. An issue so much below par was extremely unsound, and contrary to the best authority; but fortunately for the taxpayer many bondholders did not convert.

Mr. Chamberlain frankly admitted that expenditure was too high. Looking forward to the year 1922-3, he could not anticipate a revenue of more than £950 millions, and on the present basis expenditure was likely to be as high as the revenue. Clearly expenditure must be reduced. 'It is our business to reduce it if we can,' he said, 'and the Chancellor of the Exchequer with the authority of the Cabinet is setting Treasury machinery in motion forthwith to obtain from all the Departments preliminary estimates of their expenditure for next year, and in co-operation with each Department to prepare the way for drastic reductions in next year's estimates, as compared with those of this year.'

Accordingly, on May 25th, a Treasury circular was issued to all Departments asking for a 20 per cent. reduction in expenditure. This circular and its results and the subsequent appointment of the Geddes Committee on National Expenditure are described in a later chapter.¹

During the Budget debates there were discussions on the capital levy, the McKenna Duties, Imperial Preference, and other subjects; but the main theme was the need for economy. In the attack on extravagance, reductions of military and naval services and education and insurance were demanded, but as Mallet and George say: 'The main attack was centred on our various military adventures in the Middle East and elsewhere, and on the failure to reduce Government staffs.' Sir Donald Maclean asked: 'How many of the Civil Service have gone? On April 1st, 1921, the War having ceased in November 1918, we had (he said) still 366,894 Civil Servants and staffs of Government Departments. The only reduction they succeeded in making in all these years was one of 51,000. In the year 1914 we had 278,000 civil servants.' Mr. Fildes, a Coalition Liberal member, said: 'I appeal to the Chancellor of the Exchequer to consider more seriously than apparently he has done the serious state in which the industries of the country have been placed, largely by the extravagance and the folly characteristic of many of the things the Government has been responsible for.' Another member declared that the average Englishman paid as

¹ See 'The Growth of National Expenditure', Part II, Book II, Chapter I.

much taxation as one Frenchman and one American added together. The *per capita* taxation was estimated at 56·6 dollars in America, 34·6 dollars in France, and 87·9 dollars in Great Britain. Mallet and George summed up the position in the summer of 1921 as follows:

‘No one now hoped for a return to the pre-war Budget of two hundred millions, a figure regarded in those seemingly far-off days as stupendous. A huge debt and other war commitments, together with a higher price level, had removed that beyond the range of probability, and the most ardent anti-waste critic now hardly dreamed of a budget much smaller than four times the pre-war size. History had once more repeated itself. The war, like almost every other war of the two preceding centuries, had left behind it an increase in budget and debt which years of peace might reduce but were not likely ever to wipe out.’

The Treasury circular and the Geddes Committee, aided by the increasing strength of public opinion in favour of economy, were to produce a considerable reduction of expenditure in the next two years; but for some time progress was very slow. Indeed, the actual expenditure for the year was £1,079 millions, or £39 millions more than the estimate. Large additions to the Civil Service votes were attributable to the coal stoppage and the heavy cost of unemployment. On the other hand, revenue fell short of the estimate by £92 millions and yielded only £1,125 millions. The decrease was due entirely to excess profits duty, which had been estimated to produce £120 millions. Actually £122 millions were collected, but £91½ millions had to be refunded, leaving only £30½ millions for the exchequer.

In August 1921 a new fiscal measure, the Safeguarding of Industries Act, was passed into law. This Act, unimportant from a fiscal point of view (the duties yielded about half a million pounds a year), had great political significance; for it was a definitely protectionist Act. It was divided into three parts. The first imposed duties of 33½ per cent. on what were to be called ‘key industry’ goods. The key industries were not, as might be supposed, industries of economic importance, but related to the production of articles which were necessary in war time, including some thousands of chemicals, and scientific instruments, such as arc lamp carbons, magnetos, &c. The second part of the Act dealt with ‘dumping’, which it described as selling in this country at prices below the cost of production, or at prices which, by reason

of depreciated currencies, were below the price at which similar goods could be manufactured in Great Britain. The third part of the Act dealt with administrative provisions. Mr. Baldwin, the President of the Board of Trade, was in charge of the Bill; and among its chief critics were Mr. Asquith and Sir John Simon. 'The true interest of this country', said Sir John, 'is to purchase what it needs at the best price obtainable, and thereby to increase the total of our trade, not only by the goods we bring in, but by the goods we send out in exchange. This Bill puts a premium on dearness.' Mr. Asquith declared that, though trifling in itself, this Act was the first instalment of a tariff; and the measure received very strong opposition from Free Traders inside and outside of Parliament. The first part of the Act was to operate for only five years, but in 1926 it was renewed by the Conservative Government for a further ten years, and these key-industry duties are still in operation. Under Part II, no case of actual 'dumping', or selling below the cost of production, was ever proved; but for a time a few 'depreciated currency' duties were imposed on imports from Germany.

Thus the third year of Mr. Lloyd George's Coalition Government saw the introduction of two fiscal measures both of which added to the unpopularity of the Government. At the end of the year Mr. Lloyd George and his supporters were planning a general election in the spring of 1922, at which they might hold out hopes of reduced taxation. This move was thwarted by the Conservative Party caucus under the inspiration of an extremely astute politician, Sir George Younger, who decided that the Coalition must be given a little more rope.

In the course of the debates on this Budget more was heard about economy, from persons differing so much in general views as Mr. J. H. Thomas, Sir Frederik Banbury, and Mr. A. M. Samuel; the latter wished the House to declare that it would not pass any supplementary estimate. Sir Godfrey Collins reckoned that the Conversion Loan would cost the taxpayer $5\frac{3}{4}$ per cent. for forty years. Sir Donald Maclean quoted Mr. Lloyd George's circular to the Departments: 'If they cannot reduce expenditure, they must make room for somebody else who can. That is the public temper, and it is right.'

Much was said about the effect of the McKenna and other duties.

186 THE WAR LIQUIDATION BUDGETS, 1919-1922

Mr. Kiley quoted an invoice for clearing cases, with six separate charges which amounted altogether to 30s. 3d. Mr. Barnes said that the preferential tea duty was killing the re-export trade; during the past year the imports of black tea to London from China had fallen from £10 millions to under £1 million. Some remarkable cases were quoted to show that the income- and supertax might be much heavier than they seemed to be. Mr. Pretzman mentioned a Scottish property rated at over £42,000, where maintenance absorbed £19,200, while rates, taxes and other statutory burdens required £22,800, so that the owner's net income was only £467. Although this Budget was carried through the House of Commons without difficulty, it was much disliked in the country, and doubtless helped the movement for retrenchment which was being promoted by business men.

The Budget of 1922

ESTIMATES FOR 1922-3

(in £ millions)

Expenditure	.	.	.	910	Revenue	.	.	.	911
Surplus	.	.	.	1					
				911					

Sir Robert Horne's second Budget of May 1st, 1922, was the last to be introduced during the lifetime of the Parliament elected under war influences. The extraordinary uncertainty and, as time was to show, inaccuracy of its estimates, and the high level of expenditure for which it provided, distinguish it from its successors; and it may be regarded as the last of the War liquidation Budgets. It was distinguished from its predecessor by the fact that Irish services, owing to the establishment of the Irish Free State, no longer had to be included; and this was one reason why the estimated expenditure showed a considerable reduction compared with the estimates of the previous year.

Evidence of the impression made on the Government by the economy movement may be found in the King's Speech on February 7th, 1922, which stated: 'In a time of great industrial depression, such as that through which the world is at present passing, it is a necessity of the situation that economy be practised by all and in every direction.' The Report of the Geddes Committee, presented in February 1922, had recommended reductions amounting to £86

millions, of which the Chancellor professed to accept £64 millions. During the debate on the Report, Mr. Asquith showed how the burden on the taxpayer had been gratuitously increased by military adventures in Russia, Iraq, and the Middle East; and in this he was supported by Field Marshal Sir Henry Wilson, who said that we ought 'to come out of those places which do not belong to us, and to hold on to those which do'.

The Chancellor said that the past year had 'proved to be one of unexampled trial and difficulty for industry and commerce, and, therefore, also for finance'. This was no overstatement. An unparalleled trade slump had spread over this and other countries, causing heavy unemployment at home and further impoverishing our customers abroad. Owing to the trade depression Sir Robert Horne decided to suspend the Sinking Fund and reduce taxation. During the past year the external debt had, he said, been reduced by £71 millions (though the internal debt had been increased); and during the past three years £275 millions of foreign debt had been paid off. If, however, one considers the debt as a whole, there was no net repayment during the three years 1919 to 1922. On the other hand £700 millions of war stores had been sold, and this sum should have gone to reduction of debt.

The estimated expenditure for the year 1922-3 was £910 millions, including £25 millions for contingencies, and on the existing basis of taxation the revenue was estimated at £956 millions, including £90 millions of 'special' receipts. This prospective surplus of £46 millions did not include any provision for the redemption of debt, and Sir Robert Horne proposed to borrow the money required for statutory sinking funds. The 'surplus' was to be used for remissions of taxation. The standard rate of income-tax was reduced from 6s. to 5s. in the pound; the assessment of agricultural land was reduced to the amount of the annual value. These concessions were estimated to cost £33 millions in the current year, and £54 millions in a full year. The tea duty was reduced by one-third (from 1s. to 8d. per lb.), and corresponding reductions were made in the duties on cocoa, coffee, and chicory. Postal rates were also reduced—the charge for letters from 2d. to 1½d., for post-cards from 1½d. to 1d. These and other minor changes of taxation were estimated to cost over £45 millions, and the final estimated surplus was only £706,000.

These reductions of taxation were, of course, popular, but to afford them at the expense of the Sinking Fund seemed fundamentally unsound, and the Budget was sharply criticized on this ground in Parliament.

But the greatest defect of this Budget was the extraordinary inaccuracy of the estimates following, as it did, the Chancellor's claim that financial control had been reassumed, and that it was now possible for the Treasury to make closer estimates than it could make during and immediately after the War. Instead of the estimated expenditure of £910 millions, the actual expenditure for the year was £812 millions; and as the revenue exceeded the estimate, there was a surplus, not of £706,000 as estimated, but of £101,516,000. Sir Bernard Mallet and Mr. George point out that the inaccuracy was largely attributable to the fact that the estimates had not been adjusted to meet the change in the price level, and they add:

'The Departments prepared their original estimates when prices were decidedly higher, but before the budget was opened prices had dropped to the level they were approximately to maintain for some years. The Treasury, however, who were in a position to predict the general trend of prices, failed apparently to ensure that the Departments' estimates were suitably adjusted to the new price level. Some of the difference between estimated and actual expenditure may conceivably have been due to deliberate over-estimating. But whatever the cause or causes, it is clear that a divergence of a hundred millions in the expenditure estimates undermines the foundation stone of the national financial system and reduces the greater part of the year's financial debates to a farce. And if account is taken of the £21 $\frac{3}{4}$ million devoted to sinking fund payments for which no provision was made in the budget estimates the divergence between estimated and actual expenditure was not one hundred but one hundred and twenty millions.'

Thus, in spite of himself, Sir Robert Horne's intention to suspend the Sinking Fund was not fulfilled, and in the end far more debt was redeemed than he would have thought desirable under the existing conditions. The Budget was destined to be his last, for in the following year he was not even a member of the Government.

As I have explained elsewhere, the unpopularity of the Coalition was intensified during the later part of the summer of 1922, culminating in a great popular protest against a threatened renewal of

war with Turkey. In the autumn it became evident that the Prime Minister intended, and some of the Conservative leaders had agreed, to make an early appeal to the country; but a growing number of Conservatives were bent upon ending the Coalition.

The Conservative Members held a meeting at the Carlton Club in London on October 19th, 1922. Mr. Baldwin, one of the active leaders of the revolt against the Coalition, said that Mr. Lloyd George had been described as a dynamic force. 'It is', he added, 'owing to that dynamic force and that remarkable personality that the Liberal Party to which he formerly belonged has been smashed to pieces, and it is my firm conviction that in time the same thing will happen to our party.' A resolution was proposed declaring that the Conservative Party should fight the election independently 'with its own leader and its own programme'. Mr. Bonar Law, who came out of his retirement to attend this meeting, supported the resolution, and his speech was decisive. The resolution was carried by 186 votes to 87. Mr. Austen Chamberlain and other Conservative Ministers at once retired, and that evening Mr. Lloyd George resigned the Premiership.

Mr. Bonar Law became Prime Minister, and at the ensuing general election, which he fought on a programme of 'tranquillity, stability, and economy', he obtained a comfortable majority. The Conservative Party was, however, temporarily divided, for Mr. Austen Chamberlain, Sir Robert Horne, Lord Birkenhead, Lord Balfour, and others did not join the new Government, though some of them entered it a year later. Mr. Stanley Baldwin became the new Chancellor of the Exchequer.

Thus the country was struggling back to sanity and peace-time conditions. It had now rid itself of its Coalition Government, and a Parliament had been elected pledged to public economy. Mr. Bonar Law's Election Manifesto said: 'The first essential is to reduce expenditure to the lowest attainable level, in the hope that the taxpayer may find some relief from the burden of taxation which not only presses so heavily upon individuals, but is the greatest clog upon the wheels of industry.'

The partial success which attended the new Government's efforts to effect economies will be described in the next chapter. Before the end of the financial year, reductions of expenditure had

produced the large surplus already mentioned. At the same time, there was an appreciable diminution of unemployment, showing that trade and employment may improve when a Government is reducing the numbers and wages of its employees.

Conditions were, however, still far from normal. Indeed, some of the *sequelae* of the War, particularly its legacy of War Debts and Reparations, were yet to show their worst effects.

CHAPTER III

THE BUDGETS OF 1923 AND 1924

WHEN we remember that the economic recovery of Great Britain from the effects of the Napoleonic Wars can hardly be said to have begun until after a lapse of thirty years, we cannot wonder that the infinitely greater losses in men and money have not been repaired fifteen years after the conclusion of the Great War. In the United States, it is true, prosperity returned rapidly after 1922. It culminated in the frantic speculation and fictitious boom of 1928. Then came the Wall Street collapse of October 1929, and a long-drawn agony of declining trade and prices, with a train of bankruptcies which led to the banking moratorium and an abandonment of the gold dollar in the spring of 1933. In Great Britain a partial but much less pronounced recovery was visible after the economies and reductions of taxation effected between 1922 and 1925. The relapse, though less dramatic and less disastrous than that which befell the American people, was sufficiently severe, and though public credit was restored in 1931 by the balancing of the Budget, it was only achieved, as we shall see, by imposing an immense additional burden of taxation on income and consumption. Britain had to take its full share in the general trade slump, which is directly traceable to the legacy of reparations and gold debts left by the War—a legacy which was made permanent by the Anglo-American War Debt Treaty of 1923. That Treaty made it practically impossible to cancel War Debts and Reparations. Consequently, when Britain, France, and many other countries returned to the gold standard, vast masses of gold were drawn by gold debts and reparations to the United States and France. A gold famine began. All gold debts—public and private—became heavier and heavier as gold prices fell. The world's financial structure tottered to a fall, and a long list of once flourishing countries defaulted on their foreign debts.

But in the earlier Budgets of the decade with which our survey of post-war finance in Great Britain will conclude, trade and revenue were relatively satisfactory, and reductions of public expenditure made it possible to lighten the burdens of both direct and indirect taxpayers in the three successive Budgets of Mr.

Baldwin, Mr. Snowden, and Mr. Churchill. When Mr. Churchill announced in 1925 Great Britain's return to the gold standard, without any reduction in the gold contents of the pound, there was as little opposition in the City, in the Press, or even among the professors and experts, as when Mr. Baldwin, more than three years earlier, promised to repay the whole of the American War loans in gold without any safeguards or conditions. But four years elapsed before the disastrous consequences of these two decisions were unfolded.

The Budget of 1923

ESTIMATES FOR 1923-4

(in £ millions)

Expenditure	.	.	.	817	Revenue	.	.	.	.	819
Surplus	.	.	.	2						
				819						

Before introducing his first Budget, Mr. Baldwin performed an act of far-reaching consequence by making an agreement for funding the British War Debt to the United States. After the War it had been hoped and expected that there would eventually be an all-round cancellation of War Debts; but President Harding's Cabinet insisted that the debts due to America should be enforced in a strictly legal way—an attitude which was supported, rather sanctimoniously by some American writers, as necessary to maintain the inviolability of all national and international obligations.

In February 1922 Congress set up the World War Debt Funding Commission, and soon afterwards the American Government requested the debtor States to fund their debts. In August 1922 came the Balfour Note which pointed out that Great Britain was owed four times as much as she herself owed (£3,400 millions as against £850 millions, exclusive of interest in both cases), but that the British Government had hitherto refrained from pressing any claim against their debtors. Our Government advocated the policy of writing off the whole of the inter-Allied Debts; but if this were found impossible, they would ask no more from their debtors than was necessary to pay their creditors. The Note was not welcomed either in America or France, since it threw upon them the onus of enforcing payment of Debts and Reparations.

In January 1923 Mr. Baldwin, accompanied by Mr. Montagu

Norman, the Governor of the Bank of England, and Treasury officials, went to Washington to undertake the funding negotiations. The amount of the debt was agreed upon at the figure of 4,600 million dollars (plus an odd sum, which was paid off in cash at once), and the settlement provided for the repayment of this huge amount over a period of 62 years, with interest at 3 per cent. for the first ten years and $3\frac{1}{2}$ per cent. thereafter. Previously, Great Britain had been paying 5 per cent. interest on the debt; and Congress had demanded a minimum rate of $4\frac{1}{4}$ per cent. Mr. Baldwin therefore fancied he had obtained a considerable concession, and during the Budget debates he defended the agreement as 'a first step towards the settlement of the world problem', and as an action which had paved the way towards a far better understanding between the two countries.

It was a most unfortunate transaction, and it is now obvious that Mr. Baldwin was in much too great a hurry. A general arrangement should have been made with the Allies, or a most-favoured-nation clause should have been inserted in the British Debt Treaty. In any case, there should have been an arrangement for payment in goods untaxed by the tariff, or, failing that, the gold payments should have been checked by an index number. The debt represented goods supplied at inflated prices, but the repayment was to be made in gold dollars, and no account was taken of the fall in prices since 1919. Again the American Debt Commission soon afterwards granted far more lenient terms to her other debtors; so that if our negotiators had secured a most-favoured-nation clause, the amount of the British payments would have been very greatly reduced. As it was, Great Britain had to make gold payments amounting to 160,700,000 dollars (£33,000,000) a year to the United States, and the result was not 'a first step towards the settlement of the world problem', but a serious aggravation of the problem. It was the fundamental cause of the drain of gold from Europe to the United States, with the consequent rise in the value of gold, and that disastrous fall in commodity prices which led to the world crisis of 1931.

On April 16th, 1923, Mr. Baldwin introduced his Budget. As we have seen, he was able to announce a large surplus, as the year's expenditure had been much below estimates. The reduction, he explained, was owing partly to the continued fall in prices and

consequent decrease in the cost of the War bonus to civil servants, and partly to a contraction in Government activities, accompanied by reductions in military and naval personnel, and in other Government staffs. One member suspected that the huge surplus was part of a deep-laid plot to enable the Coalition Government to appeal to the country after a popular Budget. Certainly, the prospects for trade and revenue were brightening, and in his Budget speech Mr. Baldwin was able to say that in the past financial year, 'trade, both home and foreign, improved; unemployment, though still grievous, decreased; and Government securities steadily appreciated'.

Mr. Baldwin estimated that the expenditure for the year 1923-4 would be £817 millions, and that the revenue on the existing basis of taxation would yield £853 millions, giving him a prospective surplus of £36 millions. He reduced the standard rate of income-tax from 5s. to 4s. 6d. in the pound, which cost £19 millions (£26 millions in a full year); he reduced the corporation profits tax from 1s. to 6d. in the pound; he abolished the duty on cider, and halved the duty on table-waters; he gave up £2 millions of revenue by lowering postal and telephone charges, and £13 millions by a reduction of the beer duty. These remissions of taxation left an estimated surplus of slightly under £2 millions.

Another feature of this Budget was the establishment of a Sinking Fund—a definite sign that the country was leaving the war period and entering upon new peace-time conditions. Mr. Baldwin proposed that the Sinking Fund should be £40 millions that year, £45 millions the next, and £50 millions the year after. These proposals were creditable, so far as they went. Some critics demanded a Sinking Fund of one per cent.; but that would have cost £77 millions.

The 1923 Budget might be described as a Budget of moderate virtues: a Sinking Fund, substantial if hardly adequate; a reduction of the income-tax, to please the business community; a penny a pint off beer, to please the workers. On the whole, the Budget was well received, though the preference of beer to sugar caused some indignation. In defence, Mr. Baldwin said that the consumption of sugar had overtaken production, and consequently a lowering of the sugar duty might not reach the consumer. Mr. (now Lord) Snowden, who had been returned to Parliament at the previous

election, was the chief critic of the Budget, and it was noticed that the long amendment which he moved on behalf of the Labour Party said nothing about a levy on capital. He thought the Sinking Fund too small, although Mr. Baldwin's plan raised it to a substantial figure. Mr. Snowden observed that the debt, which was given as £7,773 millions on March 31st, 1923, was under-estimated, because there was no allowance for accrued premiums on War Bonds or for the accrued interest on Savings Certificates which might add another £100 millions to the total.

Among minor suggestions, one of the best came from Sir Charles Oman, who vainly endeavoured to induce Mr. Baldwin to restore the purity of the silver coinage, which had been debased after the War by Mr. Austen Chamberlain.

During the debate on the third reading of the Finance Bill, Mr. (now Sir) E. Hilton Young discussed deflation, which, he said, should be undertaken very gradually. One Conservative member asserted that 75 per cent. of the money raised for War Debt was distributed in wages, which came easily and went easily, and thus spread through the working classes and all classes a careless disregard for the value of money from which every one was still suffering. Mr. Baldwin emphasized the fact that the right policy for the country was to keep prices steady; and in the course of his speech he defended his American Debt settlement.

Before the Finance Bill was passed, Mr. Bonar Law, whose health had again failed him under the strain of office, was compelled to retire; and Mr. Baldwin became Prime Minister. Thus, within a few months, Mr. Baldwin rose from comparative obscurity to the highest office in the State. He retained the Chancellorship temporarily, but announced that he would offer it to Mr. McKenna if he returned to Parliament. The Conservatives, however, refused to find a seat for an ex-Liberal Free Trade Minister, and Mr. Neville Chamberlain became Chancellor of the Exchequer. But a few months later Mr. Baldwin suddenly came to the conclusion that he could not remain in office while he was tied by Mr. Bonar Law's pledge not to reverse the fiscal system. Unemployment, he said, was the crucial problem, and the only way of dealing with it was by 'protecting the home market'. This declaration was made at the annual meeting of the Conservative Party in Plymouth on October 25th, 1923; and it was greeted with such

a storm of cheering that Mr. Baldwin himself was taken aback. He continued:

‘I am not a clever man. I know nothing of political tactics, but I will say this: having come to that conclusion myself, I felt the only honest and right thing as the Leader of a democratic party was to tell them, at the first opportunity I had, what I thought, and submit it to their judgments.’

The next morning, Mr. Baldwin learnt from the newspapers that he was in for a general election; and the only question was whether it should come at once or in the spring. The date was eventually fixed for December 6th, and the result of it was to convert the large Conservative majority into a minority of nearly a hundred. During the campaign, the challenge to Free Trade brought together the two wings of the Liberal Party, the Independent Liberals under Mr. Asquith and the National (Coalition) Liberals under Mr. Lloyd George. The election also reunited the Conservative Party leaders, though many of the rank and file regretted the revival of tariff reform. Meanwhile, for the first time in English political history, a Labour Government was to take office. Mr. Asquith decided that, as the country had voted for the restoration of Free Trade, and as there was no danger of Socialism, he would vote against the continuance of the Conservative Government. ‘If’, he said, ‘the experiment of a Labour Government is to be tried, it could not be tried under safer conditions’.

During the remainder of the year there was no change of financial policy, but the credit of bringing the national expenditure to its lowest post-war level belongs mainly to Mr. Baldwin. The actual expenditure for the year proved to be £789 millions—a saving of £28 millions compared with the estimates. The realized revenue was £837 millions, or £18 millions more than the estimate; and thus the year’s surplus amounted to £48 millions. Sir Bernard Mallet and Mr. George observe in *British Budgets*:

‘If this Budget was not remarkable for originality of design, in its actual results it compares favourably both with those which preceded and those which followed it, and was destined to be the last to give any satisfaction to those desirous of securing substantial and permanent reductions in expenditure.’

It marked the end of the post-war shrinkage in public expenditure. After another year or two expenditure began to rise rapidly, in

spite of falling prices and a shrinking national income, until it culminated in the catastrophe of 1931.

The Budget of 1924

ESTIMATES FOR 1924-5

(in £ millions)

Expenditure	790	Revenue	794
Surplus	4		
	794		

The first Labour Budget in English history was introduced by Mr. Philip Snowden (afterwards Viscount Snowden) on April 29th, 1924. As in the previous year, the Budget statement presented a comparatively satisfactory account of the nation's finances, and contained proposals for reducing taxation. The estimates of expenditure for the coming year, totalling £790 millions, showed a reduction of £27 millions compared with the Budget estimates of the previous year. For the first time since the War the estimates had been brought below the £800 million mark, and it then seemed as though the national expenditure was slowly but surely being reduced to a level which, though inevitably high, would be tolerable in a post-war era. Every one realized that with the vastly increased debt charge and the heavy cost of war pensions, it was useless to expect a return to the pre-war level.

Nor were prospects of continued economies improved by the advent of a Labour Government, even though it was dependent on Liberal support. Though the estimates for 1924-5 were below the original estimates for 1923-4, they were (as was freely pointed out in the Budget debates) slightly higher than the actual expenditure for 1923-4; and, as will be seen, the realized expenditure was to be still higher. The reverberations of the Geddes 'axe' were becoming weaker and fainter. War expenditure was still diminishing; but this decline was more than offset by increases in the social services.

On the existing basis of taxation, Mr. Philip Snowden estimated the revenue at £828 millions, and there was thus a margin over the estimated expenditure (including £45 millions for the sinking fund) of £38 millions. He proposed to absorb £34 millions of this in reductions of taxation, leaving a final prospective surplus of £4 millions.

From a revenue point of view, the main change was an overdue reduction of the sugar duty from $2\frac{3}{4}d.$ to $1\frac{1}{4}d.$ per lb. This was expected to cost over £17 millions in the first year, and over £18 millions in a full year. The tea duty was reduced from $8d.$ to $4d.$ per lb., at a cost of £5 millions; and the duties on coffee and cocoa were also halved. The duty on table-waters was abolished; and there were considerable reductions in the duties on dried fruits, and in the entertainments tax. An old anomaly, the inhabited house duty (which had ranged from $2d.$ to $9d.$ in the pound on rents) was repealed; and the corporation profits tax, which Mr. Baldwin had halved, was now done away with at a small cost in the current year of £2 millions, but at the formidable sacrifice of £12½ millions revenue in a full year. There were also minor changes affecting stamp duties and allowances for income-tax.

Then came the most controversial part of the Budget, the repeal of the 'McKenna Duties'. These, it will be remembered, were customs duties of $33\frac{1}{3}$ per cent. on motor-cars, musical instruments, clocks, &c., imposed temporarily during the War, but continued for protectionist reasons after the War. The repeal was to cost only £2½ millions in the first year, and £2¾ millions in a full year. Mr. Snowden remarked that import duties on manufactured goods were made the issue at the last general election by Mr. Baldwin's Government, and the country had given 'a most decisive verdict against them'.

Mr. Snowden also announced that he did not intend to carry out the proposals, to which the late Government had agreed at the Imperial Conference in October 1923, for the extension of Imperial Preference. 'All we can say', he added, 'is that, so long as we remain in office, we do not propose, in all the circumstances, to ask Parliament to abolish the preferences now accorded.' He agreed, however, to allot a day for the discussion of Mr. Baldwin's proposals, and to allow a free vote of the House of Commons upon them. Another step towards Free Trade was the repeal of that part of the Safeguarding of Industries Act, 1921, which related to depreciated currency duties. The key industry duties, which had been imposed for a definite period of five years, were to be allowed to run their course.

During the Budget debates the main controversy raged over the Free Trade proposals. The Free Trade members of the Liberal

and Labour Parties both in the House and in the country were enthusiastically in favour of them, and Radicals hailed the Budget as carrying out their ideals of no Protection, a 'free breakfast table', and (in a less degree) of economy of expenditure. The shades of Gladstone, Bright, and Cobden seemed to have reappeared on the scene. At one blow, Free Traders had regained nearly all that they had lost during the War. But Fortune's wheel was to turn again in a few months, and all the mischiefs of economic nationalism were to be intensified in the next few years.

Meanwhile, British Tariff Reformers were enraged by Mr. Snowden's proposals, and the manufacturers who contributed to their funds were beside themselves with indignation. One well-known maker of light cars stated that if the duties were repealed, a million men would be thrown out of work, and four millions more would be indirectly affected. A local Conservative leaflet stated: 'the McKenna Duties are to be abolished, which will throw out of employment nearly 2,000,000 British workers'; and so on. Yet the official statistics showed that one-tenth of that number—200,000—was a full figure to take as the total number of persons employed in the private motor-car industry and allied trades; and when the year of Free Trade came to an end, it was found to have been quite a prosperous one for the British motor-car industry.

Two days were devoted to a debate on Imperial Preference. Mr. Baldwin tabled ten resolutions on the subject. The first four of these proposed to give increased preferences on existing duties; the remaining six sought to impose new or increased duties on fruit, tinned salmon, &c., in order to give additional Imperial preferences. The whole Conservative Party supported these resolutions. The first four of them, since they involved some reductions and no increases of duties, were designed to attract, and succeeded in obtaining, the support of a handful of imperialistic Free Traders. Even Mr. Lloyd George, who absented himself from the debate, paired in favour of some of the resolutions; but Mr. Asquith denounced them as an 'attenuated, emasculated, anaemic and even apocryphal version of the full-blooded gospel of Imperial Preference'. The first Resolution, to abolish the duty on Empire dried fruits, was only defeated by the narrow majority of 278 votes to 272; but the next three were lost by increasing majorities; and the

remainder were then withdrawn. Thus ended the first attempt at a considerable extension of Imperial preference. Within a very few years, a new Parliament was to reverse this decision completely by adopting the fiscal arrangements entered into at Ottawa.

Apart from the preferential and protectionist controversy, Sir Godfrey Collins and others sharply criticized the Budget for making increased provision for armaments, and especially for a cruiser programme, which harmonized ill with the pacific professions of Labour candidates at the recent election. As many conflicting statements have been made on this subject, it is of interest to see the whole of the figures, with the comparative amounts for the previous year:

EXPENDITURE IN 1923-4

	Budget Estimates (£ millions)	Actual Expenditure (£ millions)
Navy	58.0	52.6
Army	52.0	43.6
Air Force	12.0	9.6
Total	122.0	105.8

EXPENDITURE IN 1924-5

Navy	55.8	55.6
Army	45.0	44.8
Air Force	14.5	14.3
Total	115.3	114.7

Thus it was true, as Labour speakers said, that the estimates for 1924-5 were lower than those for the previous year; but in each of the Services there was a considerable increase on the previous year's actual expenditure.

The reduction of the sugar duty, though generally welcomed for its own sake, led to renewed agitation for further assistance from the feeble and unprofitable beet-sugar industry which had been started in Norfolk. A few months later Mr. Snowden yielded to this pressure, and announced that a subsidy would be granted. The Government's failure to alleviate unemployment had been repeatedly attacked, and on July 30th, two days before Parliament adjourned for the summer recess, Mr. Snowden made a statement of the Government's plans for providing work. One of these was to be a subsidy of 19s. 6d. a cwt. on sugar made from home-grown beet for four years, after which the subsidy would be at the rate

of 13s. a cwt. for three years, and then at the rate of 6s. 6d. a cwt. for a further three years. Mr. Snowden said that at first he had viewed this scheme unfavourably; but the more he saw of its possibilities, the more enthusiastic he became. 'I believe', he added, 'it is one of the very biggest things that can be done for British agriculture. I believe it will revive British agriculture and restore rural England.' A few more such plans to restore England would have been ruinous; for this scheme has already cost over £30 millions, and employed a negligible number of men. Its main effect was merely to divert production from economically profitable root crops to the uneconomic but highly subsidized growth of beetroots, and to increase, at enormous cost to British taxpayers, the world's production of sugar, of which there was already a glut. The Labour Government did not survive long enough to carry out this scheme, but it was put into operation without substantial change by their Conservative successors.

Relations between the Labour Government and their Liberal supporters had become strained, and Mr. Ramsay MacDonald's proposal to give a huge loan to Russia caused a final break. Mr. MacDonald decided upon a general election in October 1924, and—thanks to the Zinovieff letter—he was heavily defeated. Mr. Baldwin became Prime Minister again, and Mr. Winston Churchill was appointed Chancellor of the Exchequer.

Mr. Snowden proved himself in 1924, as he was again to show himself in the crisis of 1931, a strong and clear-headed Chancellor of the Exchequer, both in the House of Commons and in the Treasury; and his success was all the more remarkable as he had never before had any kind of Ministerial experience. The 1924 Budget was sound in principle. The remissions of taxation were fair and well devised. It was rightly regarded and praised as a Gladstonian Budget, though it was sadly marred by the later vicious project of a subsidy to the beet-sugar industry.

The actual expenditure for the year 1924-5 proved to be £796 millions, or £7 millions more than in the previous year, and £6 millions above the estimates. Fortunately the realized revenue, at £799½ millions, was also nearly £6 millions above the estimates. The Budget surplus of £3,659,000 was within £400,000 of Mr. Snowden's estimate. Although the revenue was satisfactory, there was no improvement during this financial year in employment.

Approximately 1,200,000 were unemployed at the end, as at the beginning of Labour's period of office. Another ominous feature was that for the first time since the War, expenditure had taken an upward turn. As the result of the general election, however, the Conservative Party came into power with a huge majority pledged to economy. In his Election Manifesto Mr. Baldwin said: 'the most rigid economy in administration is essential'; and the King's Speech at the beginning of the new Parliament went even farther, declaring: 'Economy in every sphere is imperative.' How these promises came to naught, and what disastrous results followed a further growth of expenditure during a period of falling prices, will appear later.

CHAPTER IV

THE CHURCHILL BUDGETS, 1925-1929

THE ESTIMATES FOR 1925-6 TO 1929-30

	Estimated Expenditure	Estimated Revenue	Estimated Surplus
	£ millions	£ millions	£ millions
1925-6 . . .	794	796	2
1926-7 . . .	812	816	4
1927-8 . . .	823	824	1
1928-9 . . .	820	835	15
1929-30 . . .	825	829	4

The above table shows the estimates of expenditure and revenue presented in each of the five Budgets introduced by Mr. Winston Churchill. In a second table I set out the actual expenditure and revenue for these five years, partly because these figures give a more accurate picture of the national finances during the period, and partly because the contrast between the estimates and the realized results illustrates the buoyant optimism and dangerous miscalculations which have characterized Mr. Churchill's speeches and actions throughout his public life. The realized totals were as follows:

	Actual Expenditure	Actual Revenue	Realized Surplus (+) or Deficit (-)
	£ millions	£ millions	£ millions
1925-6 . . .	821	807	- 14
1926-7 . . .	834	797	- 37
1927-8 . . .	828	832	+ 4
1928-9 . . .	818	836	+ 18
1929-30 . . .	829	815	- 14

It will be observed that, whereas Mr. Churchill's estimates provided for an aggregate surplus of £26 millions, the realized results gave an aggregate deficit of £43 millions.

I should here interpolate a few words of explanation upon the particular figures given in these two tables. The amounts for surpluses or deficits, whether estimated or realized, are not open to dispute, and the same figures will be found in all the official publications. In regard to the totals for revenue and expenditure, however, differences are frequently found, owing to the inclusion

or omission of certain self-balancing items—i.e. items which appear at the same figure under both revenue and expenditure. At the time of the Budget of 1928 Mr. Churchill altered the form of the national accounts, and one of the changes he then made was the removal of these self-balancing items. Of these items the two largest were the expenditure of the Post Office and the Road Fund, which were defrayed out of the postal revenue and the receipts from motor-vehicle licences. The figures for these two services, though now distinguished as ‘self-balancing’, are still given in the official statistics, and I have included them above. In addition there were what Mr. Churchill described as ‘minor accounting changes’, such as interest on the borrowings from one Government Department to another, teachers’ contributions to their pensions, &c. After a few years, these items ceased to be recorded; and therefore I have excluded them in each year in my tables, in order that all the figures may be comparable with one another and with the ordinary published totals since 1928. To this extent, however, the figures are not strictly comparable with those I have given for the few years immediately before 1925, though for earlier periods, the comparison is exact enough, because the items in question were negligible. In 1924-5 the aggregate amount represented by these items was only £5 millions; and if this be deducted, the expenditure is reduced from the £796 millions stated at the close of my description of Mr. Snowden’s Budget to £791 millions. Hence it is this latter figure that should be compared with Mr. Churchill’s expenditure of £821 millions in 1925-6.

There was thus an increase of expenditure of £30 millions in Mr. Churchill’s first year; and in future years he was to raise expenditure still more. Yet, as we have seen, the Government had come into power pledged to economy; and in his first Budget speech Mr. Churchill himself gave a further assurance on the subject. ‘I believe’, he said, ‘that we ought to aim at a net reduction in the supply expenditure of not less than ten millions a year. That is not taking an extravagant figure’.

Two years later, in his third Budget speech, Mr. Churchill made a characteristic reference to his own economy pledge:

‘I am frequently reproached with having in my first Budget expressed a hope of effecting a net reduction of £10,000,000 a year progressively. I am even represented as having promised that that should be done. But

the words I used were "aim at". One may aim at a reduction, as one may aim at a target, but one does not promise to hit it.'

In a Gilbert and Sullivan opera a Chancellor of the Exchequer who escaped from his pledges by so diverting a verbal artifice would give general satisfaction and entertainment. But, as a contemporary critic remarked:

'This is funny enough, and if Mr. Winston Churchill were Mr. Charles Chaplin we should only laugh; but have we no right to complain when a Chancellor of the Exchequer, with the Prime Minister and most of the Cabinet sitting beside him, tries to get out of a solemn pledge, on the performance of which the welfare of the country depends, by telling the House of Commons that they were only *aiming* at economy and that the taxpayers have no grievance if their responsible representatives have proved bad marksmen? They aimed and they missed the target. In fact, they shot at economy and happened by mistake to hit extravagance!'

Nor can we forget that at the very outset of its career the Government had stated in the King's Speech that economy was 'essential', and 'imperative'.

To dismiss Mr. Churchill as a mere rhetorician, or as a sparkling debater with only a superficial understanding of finance would, however, be a mistake. That he was, and is, a brilliant orator is, of course, true; it is also true, as Sir Robert Horne said at the conclusion of Mr. Churchill's first Budget statement, that he 'afforded the House a demonstration of the fact that figures need not be dull and that a Budget need not be drab, if only it is enlivened with a sufficiently picturesque fancy'. Even Mr. Snowden, a mordant critic, conceded the great rhetorical and argumentative triumph that his successor achieved on that occasion.

Whatever we may think of Mr. Churchill's financial statesmanship we cannot deny his capacity. Whatever we may say of his inconsistency we cannot deny his adroitness and versatility. Nor was he lacking in experience. Before his five years as Chancellor of the Exchequer in a Conservative Administration he had held office almost continuously from 1906 to 1922 in a series of Liberal and Coalition Governments, where he earned a reputation not only as a brilliant opportunist, but also as a hard worker who devoured books, and facts, and figures. His Budgets were marked by several large-scale conceptions, which lifted them above the commonplace efforts of most of the post-war Chancellors; and he may at first have thought they were compatible with his declared aims at the

target of Public Economy. But throughout he was the victim of a series of misfortunes, themselves evil offsprings of the Great War; and his haphazard shots at popularity and desperately ingenious efforts to maintain balanced Budgets without appearing to increase taxation led him from bad to worse.

Two main causes of increased expenditure and diminished revenue during Mr. Churchill's Chancellorship were, the Coal Stoppage and General Strike in 1926, and the De-Rating Scheme which he announced in 1928; and both may be traced back to the War. During the War, several industries, such as coal-mining, engineering, and shipbuilding, had been abnormally expanded in numbers, and had paid uneconomically high wages in virtue of abnormally high prices and profits. This war-time expansion led to the subsequent heavy unemployment and (since the supply of labour exceeded the demand) to a lowering of wages in these industries, and to widespread depression in the districts where they were mainly situated, which came to be known as the 'distressed areas'. Soon after the new Government took office, the coal-owners and miners came into sharp conflict concerning a proposed reduction of wages—a reduction which was all the more sudden and severe because it followed a temporary boom in 1924 caused by the French occupation of the German coal-mines in the Ruhr district. In July 1925, on the eve of a stoppage of work in the mines, the Government granted a subsidy to enable the existing wages to be paid while a Royal Commission inquired into the subject. This subsidy cost £19 millions in the year 1925-6 and was the main reason why Mr. Churchill's estimated surplus of £2 millions was turned into a deficit of £14 millions. In the following financial year the subsidy cost nearly £5 millions (making nearly £24 millions in all), and in the end it failed to prevent a disastrous strike. On May 1st, 1926, the coal stoppage began; it lasted for six months; and for the first nine days it was accompanied by the 'sympathetic' general strike, which was correctly interpreted by the nation as a revolutionary attempt to prevent any reduction of wages from the uneconomic level to which they had been raised during the War, when prices were twice as high. The general strike collapsed but the coal strike continued. These unhappy events diminished the yield of the revenue and caused additional expenditure.

As to the de-rating scheme, which greatly increased the State

expenditure in later years, it may be admitted that a large part of its cost to the Budget was merely a transference to the taxpayer of burdens which had been borne previously by the ratepayer. Three-quarters of the total rates levied on 'productive' industry, i.e. factories, mills, &c.—were to be paid out of State grants to the local authorities; the remaining quarter of the rates on agricultural land was remitted—agriculture had already been relieved of three-quarters of its rates by previous legislation. At the same time the railways were relieved of three-quarters of their rates, but were required to pass on this relief in reduced freight-charges to industry and agriculture. The total relief of rates was estimated at £26 millions, to which £5 millions were added in order to adjust anomalies, and so the initial cost to the State was £31 millions, which proved to be a gradually increasing charge.

This complicated de-rating scheme was open to many objections, of which only two need be mentioned here. The first was that the money was wrongly distributed. Instead of relieving the distressed areas, it went to all areas, and rating relief was granted to all productive concerns, however prosperous and however little in need of assistance they might be. Hence it did comparatively little to relieve the war-stricken districts by assisting the local authorities in those areas which were overburdened by poor law charges. Secondly, the giving of block grants to all authorities together with £5 millions of new money encouraged further local extravagances and thus new burdens were laid on the taxpayers without corresponding relief to the ratepayers.

These measures among others, including the granting of widows' pensions (which though on a contributive basis were largely financed by the State), increased the national expenditure by some £40 millions a year; and it was to a large extent the extravagance of the Conservative Government in this period that originated the very serious financial crisis of 1931. In this and other respects it is convenient and useful to consider Mr. Churchill's five Budgets as a whole; but for the sake of clearness, it may be well to summarize the chief provisions of each Budget separately.

The Budget of 1925 announced a return to the gold standard—a step which evoked little opposition at the time, though some thought it premature. It also contained the announcement of contributory Widows', Orphans', and Old Age Pensions. It reduced

the income-tax from 4s. 6d. to 4s. in the pound, and increased the reliefs in respect of earned income. It took £10 millions off super-tax, but balanced this by drawing an additional £10 millions from the death duties. Lastly, it imposed a series of protective and preferential duties which will be described later, together with those of Mr. Churchill's other Budgets.

The Budget of 1926, apart from a further batch of Protective or Safeguarding duties, had, as its main features, the introduction of the betting tax, an increase of licence duties on motor vehicles, and the first contributions of allied war debt payments from the Governments of Italy and France. The betting tax can only be described as a fiasco. Mr. Churchill estimated its yield at £1½ millions that year and £6 millions in the next year. Actually however, it produced only £835,000 in 1926-7 and £2½ millions in 1927-8. In 1928 the rates of the tax were approximately halved, and in 1929 it was abolished altogether. Throughout its career it was strongly opposed both by those who indulged in betting, and those who thought betting a vice and therefore held the tax to be State toleration of an evil which ought to be extirpated. The contributions on account of war debts were the first received under the Funding Agreements—three years after the funding of the British debt to the United States. Mr. Churchill negotiated a settlement of the Italian debt in January 1926, and of the French debt in July. Agreements with other countries followed, and these (with German reparations) now began to cover our war debt payments to the United States.

The Budget of 1927 brought some further taxation. For the most part the new taxes were protective, and unimportant from the revenue standpoint; but there were also additions to the duties on tobacco, wine, and matches. The main tobacco duty was raised from 8s. 2d. to 8s. 10d. per lb., with an estimated yield of £3 millions. But for the greater part of the new revenue he needed, the Chancellor resorted in this and later years to a series of 'raids' upon capital assets which will be described below. It may be noted that nearly £32 millions of non-recurrent revenue were included in this Budget. Even so Mr. Churchill obtained only a small surplus of £4 millions in the year 1927-8.

The Budget of 1928 laid the plans for the de-rating scheme, which was not to come into operation until eighteen months later; it imposed immediately a tax of 4d. a gallon on imported petrol and

other light oils in preparation for de-rating. Strong opposition resulted in the exemption of kerosene, but the duty was imposed on other light oils, and was estimated to produce £12 millions in the current year. In fact it produced almost £13 millions in that year, and £15 millions in the next year. It was also provided that the surplus for 1928-9, together with the realized surplus on the previous year, were to be placed in a Suspensory Fund to provide for the de-rating scheme—an arrangement entirely contrary to our financial traditions. As a commentator said at the time:

‘In the first place, it offends against the unbroken practice which makes our Budget an annual affair. It is the duty of a Chancellor to provide as nearly as possible by accurate estimates for the expenditure voted by Parliament, which is, again, intended as nearly as possible to represent the supplies needed for the twelve months from April 1st to March 31st. If the Revenue exceeds the estimates, the surplus is applied to extinction of debt; if it falls short of the Chancellor’s expectations and a deficit results, that deficit is added to the debt or deducted from the Sinking Fund. It is no business of the Chancellor to tax the people of the country for something which he intends to spend in a future year. Indeed, it is intolerable that he should do so. It is contrary alike to common sense and to principles of parliamentary control. In this case, who knows whether he or his Government will be in office next year? Who can say that the £18,000,000 which he is proposing to add to a ‘Suspensory Fund’ will be applied; for their application depends upon Bills which have not been presented to Parliament, much less passed into law.’

This Budget possessed two other important features; the reform of the national accounts, with which I have already dealt, and the establishment of a Fixed Debt Charge of £355 millions a year. Mr. Churchill’s plan was modelled on that introduced by Sir Stafford Northcote when he was Chancellor of the Exchequer in 1875. Northcote’s scheme provided for a modest £28 millions a year; but even then, as Mr. Churchill admitted, it was subject on five distinct occasions to ‘inroads upon the fixed debt charge, which in the parlance of those primitive times were coarsely described as raids’. Mr. Churchill himself made inroads upon his own scheme by incurring a heavy Budget deficit in the very next year; but even if it had worked according to plan, it would have involved a reduction of the Sinking Fund. He estimated the debt charge at £304 millions, which left only £51 millions for Sinking Fund, and in point of fact, the debt charge itself was under-estimated. Thus a reduction of the Sinking Fund was concealed beneath a grandiose

scheme for paying off the whole of the National Debt in fifty years. This could only have happened on a series of assumptions—that the fixed charge was never raided, that there were no Budget deficits, that peace was maintained and no new debt created—which no Chancellor had any right to take as a basis for serious finance. The reduction of the Sinking Fund in the current year was further concealed by the fact that Mr. Churchill ‘raided’ the Currency Note Reserve of its balance of £13·2 millions and placed this to the credit of the Sinking Fund—a mere book-keeping transaction, which served no purpose except one (very necessary to Mr. Churchill by this time), that of preserving appearances.

The Budget of 1929, Mr. Churchill’s last, was at best an electioneering manifesto. It abolished the tea duty of 4*d.* a pound at a cost of about £6 millions a year; it abolished the betting tax; it anticipated de-rating relief to farmers by six months (the date was advanced to April 1929) at a cost of £2½ millions; and it made some other minor concessions. The only new taxation was that imposed on brewers, distillers, and tobacco manufacturers, as an offset against the advantages that would accrue to these prosperous trades under the de-rating scheme. The estimated and the realized expenditures for 1929-30 were nearly £40 millions more than in 1924-5, despite the fact that prices had fallen considerably in the meantime; and the year ended with a deficit of £14 millions.

Three important aspects of Mr. Churchill’s Budgets remain to be considered: (1) the series of protective duties imposed by them, (2) the series of ‘raids’ upon national assets which were resorted to in order to avoid new taxation, and (3) the effect of these raids and of five years of extravagance upon the national credit.

Taken together, the protective customs duties imposed during the years 1925 to 1929 made considerable inroads into the Free Trade system of the country. In a speech delivered during the election campaign, Mr. Baldwin said: ‘At this forthcoming election, the general tariff is no part of our programme’ (Newcastle, October 2nd, 1924); and it is true that the Government kept within the terms of this undertaking. In the Conservative Election Manifesto, however, the following passage occurred: ‘While a general tariff is no part of our programme, we are determined to safeguard the employment and standard of living of our people in any

efficient industry in which they are imperilled by unfair foreign competition.'

In February 1925 the Government laid down the procedure by which industries could obtain a 'safeguarding' duty. *Ad hoc* Committees were to be established to consider each application, and among the tests to be applied were, (1) whether the applicant industry was of substantial importance, (2) whether the imports were 'abnormal', (3) whether the imports were being sold below the cost of production in Great Britain, and (4) whether there was 'unfair' competition, owing to depreciated currencies, subsidies, or inferior labour conditions. If the Committee recommended a duty, it could then be imposed in a Finance Bill or other measure passed by Parliament. Though this procedure was favourable to applicants for Protection, and though the appointment of the Committee was in the hands of a well-known Protectionist Minister (Sir Philip Cunliffe-Lister), only twenty safeguarding inquiries were held in the next four years, and only nine industries succeeded in satisfying the necessary conditions and obtaining a duty.

There is little doubt that Mr. Churchill was a convinced Free Trader. His speeches during Joseph Chamberlain's Tariff Reform campaign were among the best platform exposures of Protection ever made. On the other hand, he was obviously an opportunist in finance and politics, and inclined to adapt his policies and projects to the exigencies of an official career. Loyalty to parties or principles was not a characteristic of post-war politics, and Mr. Churchill did not court martyrdom. His first Budget contained a number of Protectionist proposals—only one of which (a duty on lace at the rate of 33½ per cent.) had been recommended by a Safeguarding Committee.

Other Protectionist taxes imposed by the 1925 Budget included

- (1) the 'McKenna' Duties on motor-cars, cloaks and watches, musical instruments and cinematograph films, which were restored. 'To some', said Mr. Churchill, 'they are a relish, to others a target, and to me a revenue';
- (2) customs duties on silk and artificial silk at various rates, including 33½ per cent. on articles containing more than 20 per cent. of silk or artificial silk. Excise duties were imposed at considerably lower rates, so that these taxes were protective, though Mr. Churchill always referred to them as revenue

duties. 'The consumer is intended to bear the burden', he told the House of Commons on May 11th, 1925.

(3) an import duty of £4 a ton was imposed on hops.

In addition, the Empire duty was decreased—i.e. the amount of Imperial Preference was increased—on sugar, wine, and dried fruits.

In December 1925 a special Safeguarding of Industries Act was passed, which imposed, in accordance with recommendations made by Safeguarding Committees, protective duties on cutlery, fabric gloves, leather and fur gloves ($33\frac{1}{3}$ per cent. in each case), and on gas mantles at six shillings per gross.

In the 1926 Budget, a further safeguarding duty ($16\frac{2}{3}$ per cent.) was imposed on wrapping and packing paper. In the same year, commercial motor vehicles were brought within the scope of the McKenna Duties; four new classes of goods, mostly scientific materials, were added to the articles taxed under the Safeguarding of Industries Act, 1921; and this 1921 Act, which was due to expire in 1926, was re-enacted for a further period of ten years. Imperial Preference was given on all the new taxes, and the amount of preference then existing was stabilized for ten years—an unconstitutional action, which could not strictly be held as binding on future Parliaments; indeed, Mr. Churchill himself removed the preference on tea when he abolished the tea duty in 1929.

In 1927 motor-tires were included among the McKenna Duties, and a new safeguarding duty of 28s. per cwt. was imposed on translucent pottery. In 1928 came the last of the new tariffs, with safeguarding duties of $33\frac{1}{3}$ per cent. on buttons, and 25 per cent. on enamelled hollow-ware. The duty imposed on petrol was also protective, and increased preference was given on the sugar duties. Free Trade critics began to ask how many separate tariffs could be introduced without violating the pledge not to introduce a 'general' tariff.

Mr. Churchill's defence of his protective duties was obviously half-hearted; as late as July 24th, 1928, he said in the House of Commons: 'In the fiscal sphere, it seems to me that we ought not to contemplate any fundamental reversal of the fiscal system upon which the whole industrial and economic structure of this country is erected, and with which it is profoundly interwoven.'

Mr. Churchill's amazing series of 'raids' on the national funds probably did more harm than his petty and ill-assorted collection

of duties. The raids began with two comparatively innocuous expedients for increasing the revenue in his first Budget in 1925. Finding that the Road Fund possessed a balance of £19 millions, he appropriated £7 millions of it for the Exchequer; and for the future some £3½ millions of the annual income of the fund was also to be appropriated. At the same time, the three months' credit allowed to the brewers for paying the tax on beer was shortened to two months, which brought £5½ millions into the revenue of that year.

By the so-called Economy Act of 1926, Mr. Churchill raided £1,100,000 of the £1,500,000 balance in the Navy, Army, and Air Force Insurance Fund—money which could have been used to provide additional benefits for disabled ex-Service men. The same Act reduced the State contribution to the Health Insurance Fund by £2,800,000 a year, and to the Unemployment Insurance Fund by £3,740,000 a year—and thus helped to create future insolvency.

In the 1927 Budget Mr. Churchill's raids were even more audacious. He took the remaining £12 millions from the balance in the Road Fund; he shortened the brewers' credits by yet another month, bringing in an additional £5 millions; and he required property owners to pay the whole of their income-tax on Schedule A in one instalment instead of two, so that he received a half-yearly instalment in July 1927 and a whole year's payment in January 1928, which had the same effect as increasing the tax by 50 per cent. for the year, and brought him in another £15 millions.

In 1928 Mr. Churchill found one more 'hen roost', the Currency Note Redemption Account. It was decided that the Bank of England should take over the note issue; consequently this account was no longer needed; and the £13 millions of accumulated reserves were taken by the Exchequer.

The abolition of the old Sinking Fund, under which Budget surpluses were automatically applied to the redemption of debt, and the fixing of a permanent debt charge, which would even in a normal year provide less than £50 millions for the new Sinking Fund, might also be described as a 'raid'. Moreover, in all these years, national assets in the form of Government stores were constantly being sold and the proceeds spent as ordinary revenue. At the same time national liabilities were being increased by guarantees under the Trade Facilities Act and other measures.

These facts, coupled with a general policy of extravagance involving an increase of some £40 millions a year in the national expenditure, had the inevitable result of lowering the national credit.

Mr. Snowden had converted debt in 1924 at £4 12s. per cent., whereas at the end of 1926, Mr. Churchill had to pay over £5 per cent. This was partly due to dearer money; for the Treasury Bill rate, which averaged £3 7s. 11d. in 1924, averaged £4 8s. 6d. in 1926. No doubt in 1926 the national finances suffered from the prolonged coal stoppage; but in 1927, when trade and employment were recovering, there was no corresponding improvement in the country's credit. Returning to the subject during the debates on the 1928 Budget, Mr. Runciman said that the national credit of Great Britain had not improved as rapidly as that of any other leading country, or indeed of any country in the world except China, Chile, and New South Wales. If the fixed debt charge were to be made really operative, Mr. Runciman added, the Chancellor would have to make his revenue, raised in the normal way and not by the realization of assets, exceed his expenditure; and he pointed out that if he were to convert to a lower rate of interest the £2,000 millions of War Loan (which was subsequently converted by Mr. Neville Chamberlain in 1932), it was necessary for the Government credit to appreciate. My own view, expressed at the time,¹ was that if Mr. Churchill had reduced expenditure as much as he increased it, the public credit would have been on a 4 per cent. basis; and this contention seems to be borne out by the fact that, though things were to become much worse, and expenditure to be still further increased, yet after a policy of economy had been adopted in the autumn of 1931, an immense scheme for the conversion of the 5 per cent. War Loan into 3½ per cent. stock was carried through successfully in the following year.²

In his last Budget speech, on April 15th, 1929, Mr. Churchill attempted a defence of his financial policy. He admitted that if he could have foreseen the course of events, he would not have taken 6d. off the income-tax in 1925. To avoid reimposing it or detracting from the remissions of indirect taxation given by Mr. Snowden in 1924, he had been driven to the invention of fresh taxes, some

¹ *Contemporary Review*, May 1927, p. 550.

² For this, no doubt, cheap money (due to bad trade) was partly responsible; but countries with unbalanced budgets could not follow suit.

successful like those on silk and petrol, and others unsuccessful, like the betting tax, and to the 'adventitious aids or windfalls', of which he regretted no more could be found. 'Revenue has become independent of temporary aids, or raids if you like to call them so.' By such means he claimed that he had tided over a difficult period, and he thought there were no causes 'which should prevent the next four or five years being easier and more fruitful'.

Mr. Churchill's Budgets and financial policy were not satisfactory. After restoring the gold standard he failed to see that the fall of gold prices made large economies in expenditure imperative. He failed to realize how the war debts to America and German Reparations were creating a gold scarcity. Apparently he supposed that the effects of the War had passed and that he was merely grappling with a temporary phase of depression, whereas, owing to the increasing burden of gold debts, a far worse period of depression was on its way. Throughout his Chancellorship, Mr. Churchill's handling of figures was more entertaining than instructive; his devices for avoiding new taxation were ingenious but unsound; his rhetoric was often brilliant, and always better than his logic; his arguments were seldom weighty. His apologies for the small protective and safeguarding duties, which he introduced to please his Conservative supporters, betrayed uneasiness and lack of conviction; he was obviously a reluctant political convert to Protection, and zealous tariff reformers grumbled and complained bitterly that he was not doing his duty. In the sphere of public economy he failed to redeem his own pledges, or those of the Administration, and embarked on measures, such as the extension of pensions, which the country could not afford.

It seemed highly probable that the Government would be defeated in consequence of its financial policy. The increasing expenditure, coupled with falling prices and diminishing employment, had disgusted its supporters and increased the strength of its critics and opponents. In 1929, when Mr. Lloyd George promised to abolish unemployment and the Labour Party outbid him, the Conservatives returned to the gospel of Economy. But it was too late; and this time their promises made no impression on the electors. In consequence they were defeated, and Labour again came into power with Mr. Snowden once more at the Treasury.

CHAPTER V

THE CRISIS BUDGETS, 1930-1933

THE Estimates for the four years after the Churchill Budgets are shown in the following table.

THE ESTIMATES FOR 1930-1 TO 1933-4

	Estimated Expenditure	Estimated Revenue	Estimated Surplus
	£ millions	£ millions	£ millions
1930-1 . . .	871	873	2
1931-2 (April) .	885	885	0·1
1931-2 (Sept.) .	865	866	1
1932-3 . . .	848	849	1
1933-4 ¹ . . .	781	782	1

In 1929-30 the estimated expenditure, as we have seen, was £825 millions, and the actual expenditure £829 millions. The great rise of national expenditure in the next two years, after Mr. Ramsay MacDonald's second Labour Government had taken office, was due largely to the increased cost of social services, including unemployment benefit, which mounted as prices and trade declined. Instead of diminishing the dole to correspond with the fall in prices, the Labour Party extended it; and so it became more difficult than ever to balance the Budget. Despite the additions made by Mr. Philip Snowden to direct and indirect taxation, deficits resulted, as shown in the following table, which gives the realized expenditure and revenue in the last three years:

	Actual Expenditure	Actual Revenue	Realized Surplus (+) or Deficit (-)
	£ millions	£ millions	£ millions
1930-1 . . .	881	858	-23
1931-2 . . .	851	851	+ 0·36
1932-3 . . .	859	827	-32

Thus expenditure in Mr. Snowden's second year as Chancellor of the Exchequer (1930-1) was nearly £100 millions more than in his first year (1924-5). Moreover, the accumulated effects of the Reparations and War Debt payments in gold, and its consequent

¹ In estimating the expenditure for 1933-4 Mr. Chamberlain made no allowance for debt payments, and the Sinking Fund was suspended.

mal-distribution, had, by 1930, resulted in a great appreciation of the precious metal, which appeared in the heavy fall of commodity prices. These factors in turn increased the burden of sterling and dollar debts, and made the weight of taxation almost intolerable. The income of the nation diminished, international trade was brought to a low ebb, and one country after another abandoned the gold standard and sought to support its exchanges by currency restrictions, import quotas, or prohibitive tariffs.

Eventually on the motion of a Liberal member, Sir Donald Maclean, the British House of Commons set up (in February 1931) another Committee on National Expenditure, presided over by Sir George May; and in July 1931 this Committee issued a report which foreshadowed a prospective deficit of £120 millions in 1932-3 and recommended drastic economies. The financial crisis led to the downfall of the Labour Government; and an all-party National Government was formed, with Mr. Snowden still at the Exchequer. A second Budget was introduced by Mr. Snowden in September 1931, and the Chancellor then estimated that in 1932-3, if all borrowing were stopped (nearly £1,000,000 a week had been borrowed for the Unemployment Fund in the preceding months) the deficit would be no less than £170 millions. This huge deficit was due to diminishing revenue—an inevitable consequence of falling prices and bad trade—even more than to increasing expenditure; and the correct remedy to apply was economy. At a time of falling incomes and a diminishing yield of taxation, permanent prosperity can only be restored by reducing expenditure and taxation. Unfortunately, out of the £170 millions, only £70 millions were provided by economies.

These sacrifices were borne with patriotic resignation by the public; but though they temporarily restored confidence their effect was not lasting. A return of prosperity could hardly be expected when more than a quarter of the entire national income was being taken in taxes and rates.

Mr. Snowden's Second Budget, 1930-1.

Mr. Philip Snowden's second Budget, which he opened on April 14th, 1930, contrasted in every way with his first, that of 1924. Among the epithets applied to it by critics in the House of Commons and the Press were 'humdrum', 'puritanical', 'ferocious',

'punitive', and 'vindictive'. Its fundamental vice was that it was based upon excessively high estimates in a year of deep depression. Consequently a balanced budget could only be attained by onerous additions to taxation, which were bound to aggravate the depression of trade and cause an extension of unemployment.

I have already referred to the changed system of accounts introduced by Mr. Churchill which omitted self-balancing items. For comparative purposes these must be replaced. When that is done, it appears that the estimated expenditure of Mr. Snowden's second Budget was £90 millions higher than that of his first. The real addition to expenditure was really far more; for in the meantime the value or purchasing power of the pound sterling had been much increased. But of this the Chancellor of the Exchequer took no account.

Of the £90 millions by which the national expenditure had risen during the years 1924-30, Mr. Churchill (including the cost of his de-rating scheme) was responsible for £70 millions. The remaining £20 millions had been added by the Labour Government mainly in grants to the Unemployment Insurance Fund, and in contributions to Widows', Orphans', and Old Age Pensions. A saving of £4 millions on the Navy was absorbed by additional expenditure on the Air Force and on the beet-sugar subsidy. After deducting the self-balancing items Mr. Snowden had to provide for an estimated expenditure of £782 millions, including £355 millions for the service of interest and Sinking Fund on the National Debt. On the revenue side he could only anticipate a revenue of £740 millions, leaving a gap of £42 millions in addition to a deficit on the previous year's Budget of over £14 millions, towards which he assigned £5 millions in the current year. Sixteen millions of the estimated deficit was supplied from a fund left by Mr. Churchill to meet the initial cost of the de-rating scheme; but, after various adjustments, the sum required from increased taxation amounted to over £31 millions. Mr. Snowden began by adding 6*d.* to the standard rate of income-tax, raising it from 4*s.* to 4*s.* 6*d.* in the pound. At the same time he increased the graduated surtax on incomes of £2,000 a year and upwards, and made a further graduation of death duties on estates exceeding £120,000. Lastly, as became a temperance reformer, he raised the beer duty by 3*s.* a barrel. These changes were expected to yield £34 millions of addi-

tional revenue in the first year and £47 millions in the year following. At the same time he announced a Valuation Bill to provide the basis for a new tax upon land values.

Towards the close of his financial statement Mr. Snowden said:

‘In facing the inevitable increase of taxation I have been guided by two principles. As long as I hold this position I am determined, however burdensome it may be, that the country shall pay its way by honest methods. I will not leave my successor to meet my bills. In imposing additional taxation I have done so by placing the burden on the shoulders best able to bear the weight. I have imposed no direct burden on industry; neither have I taken from the poorest of the land any part of their inadequate means. The additional taxation will fall upon a class to whom it will mean no deprivation of the necessities of life nor even of reasonable luxuries and amenities. I am asking only that the favoured section of the community shall contribute to the needs of the State in proportion to the benefits the State has conferred upon them.’

After thus giving vent to a Socialist theory of taxation Mr. Snowden made a concession to critics of public extravagance by adding:

‘On the other hand I realize the imperative need of the strictest national economy in the present state of trade and industry, not only to provide employment and comfort for our people, but because primarily it is only from trade and commerce that the national revenue can be derived.’

Only a few weeks before, in a broadcast to the United States, he had described the situation in Great Britain as follows:

‘Our people are the most heavily taxed in the world. The average amount of national and local taxation works out at about £100 per family. We have an income tax of 4s. in the pound, a supertax running up to 6s. in the pound, and in addition duties on estates passing at death, ranging as high as 40 per cent. With such a burden as this upon our shoulders, with all the destruction, waste, sacrifice and disorganization of industry and society that this implies, is it any wonder that we have severe industrial depression?’

Following such an exposition of the state of the country it seemed amazing that he should shortly afterwards have added to all the taxes to which he referred; but Mr. Snowden was in the hands of a Labour Party which would not allow him to economize; and the Liberals, who might have turned him out of office, preferred even this Budget to the alternative of a Conservative Government, which would have extended instead of diminishing Protection, though all that Mr. Snowden could promise in the direction of Free Trade was that, as the safeguarding duties came to an end, they would

not be renewed. The other protective duties he maintained for the time being, because he could not dispense with the revenue they afforded.

Mr. Snowden's Third Budget, 1931-1932

April 27th, 1931

Between Mr. Snowden's second and third Budgets the effects of the financial debacle in the United States had spread all over the world in the shape of a trade depression of unexampled magnitude, accompanied by an alarming slump in gold prices. The *Economist* index number of wholesale prices, starting at a basic figure of 100 for the year 1913, stood, in 1924, at an average of 166. From this it had declined to 132 in 1929, and to an average level of 111 in 1930. During 1930 the collapse of prices was very rapid, and by the end of December the index figure had dropped to 98 and was even lower in April 1931, when Mr. Snowden opened his Budget. This meant that a wholesale purchaser of food, textiles, minerals, &c., could buy, with the same number of pounds sterling, rather more than he could buy before the War. To put it in a concrete form, a wholesale buyer in England would require £16 in 1924, £13 in 1929, £11 in 1930, and less than £10 in the spring of 1931, to buy what would have cost about £10 in 1913. The fall in retail prices is much more difficult to measure, as prices in shops are so variable; but retail movements always lag; hence the decline in the cost of living was considerably less than the decline in wholesale prices. Moreover, rents were more or less stationary, though the cost of new houses had come down considerably since 1920. Obviously Government expenditure in Britain, and in other countries which had gold currencies, should have been correspondingly reduced; for not only were real wages rising, but enormous wholesale purchases by Government Departments should have made very large economies practicable. Instead of this the nominal expenditure of the Government had increased. The real increase of national expenditure—so I concluded at the time of Mr. Snowden's second Budget—must have been at least £150 millions since 1924, and probably a good deal more. Here we have an explanation of the insolvency which overtook so many Governments and nations between 1929 and 1933, and was now threatening Great Britain.

In his previous Budget Mr. Snowden had estimated ordinary

revenue at £789 millions, and self-balancing revenue from the Post Office, &c., at £83 millions; but his receipts had fallen short of his estimate owing to bad trade, and were only £775 and £81 millions respectively. To this deficit, caused by over-estimated revenue, had to be added another deficit due to under-estimated expenditure, mainly on account of increasing charges for increasing unemployment. Altogether, instead of an estimated surplus of over £2 millions, there was a deficit of over £23 millions, which had to be added to the National Debt.

For the current year Mr. Snowden allowed for another addition of £14 millions to the national expenditure, and was forced to anticipate a prospective deficit of over £37 millions because of declining revenues from income-tax, stamp duties, &c., due to the trade depression which showed no signs of lifting. But he felt that further additions to taxation would only make matters worse; and so, to effect a temporary balance of the Budget, he drew £20 millions from the Dollar Exchange Fund, which was no longer required, and raised £10 millions more by providing that three-quarters instead of half the instalments under certain schedules of the income-tax should be paid in January. His only real addition to taxation was an increase of the petrol duty from 4*d.* to 6*d.* per gallon, which would produce an additional revenue of £7½ millions in the first year. From all these devices he only anticipated a tiny surplus of £134,000 if his estimates of revenue and expenditure should prove correct.

Apart from the vice of an increased expenditure in face of dwindling revenue, one severe adverse comment must be made on Mr. Snowden's presentation of the accounts. In dealing with the provisions for debt reductions by means of Sinking Fund he left out altogether the borrowings for the Unemployment Insurance Fund, which—owing to a vast growth in the number of the unemployed—had then risen to the rate of about a million a week—so far was unemployment insurance from paying its way! There was, indeed, no prospect that on the existing basis this State Subsidy to the unemployed would be repaid. Consequently these loans were really additions to the National Debt; and as the only means of reducing the National Debt is by an annual surplus of revenue over expenditure, it followed, as I wrote at the time: 'if last year's borrowings for Unemployment Insurance are set off

against the Sinking Fund, last year's Budget will only just balance; and this year, unless the present rate is reduced the borrowings for insurance will more than cancel the amounts applied to the Sinking Fund.' This catastrophe, I added, 'can only be avoided by prompt economies in this year's estimates and by an equally prompt and drastic reform of the Unemployment Dole'.¹ Unless these two things could be achieved Mr. Snowden's make-shift Budget was bound to collapse—a warning prediction which was to be verified with surprising rapidity. Already, as Sir Bernard Mallet wrote in his *British Budgets*, signs of the coming storm had appeared; for in January a Treasury memorandum prepared by Sir Richard Hopkins for the Royal Commission on Unemployed Insurance had declared that 'continued State borrowing on the present vast scale without adequate provision for repayment by the fund will quickly call in question the stability of the British financial system'. On this there followed an economy debate (February 11th, 1931) which started with a Conservative motion censuring the Government for adding to the public expenditure at a time when strict economy was necessary to restore confidence and promote employment. This motion was defeated, but another proposed by Sir Donald Maclean on behalf of the Liberals was more successful, and led to the appointment of the famous May Committee, whose Report was published on the last day of the Session, too late for the consideration of Parliament. The disclosure in this Report of an immense impending Budget deficit caused general alarm, and led to large withdrawals in gold of foreign funds which had been held in London for safe keeping and for employment in the money and discount markets. The Labour Cabinet saw that it was necessary to make economies, but the Trade Union Council vetoed the essential reduction in unemployment insurance recommended by the May Committee and endorsed by the Prime Minister and the Chancellor of the Exchequer. This caused a split in the Cabinet. Mr. MacDonald was deserted by most of his Cabinet colleagues; but being assured of the support of the Conservative and Liberal Parties he decided, at the King's request, to form a National Government to deal with the emergency and balance the Budget. The new Government was formed on August 25th, and Parliament was summoned for an emergency session on September 8th, 1931.

¹ See *Contemporary Review* for June 1931, p. 686.

*Mr. Snowden's Fourth Budget (the 2nd Budget of 1931)
September 10th, 1931*

Mr. Snowden's third Budget had passed through all its stages in July, after a long fight over land tax proposals which had been incorporated in the Finance Bill. They were severely criticized by Sir John Simon, who separated himself from most of the Liberal members on this issue. But the financial and political events already mentioned had played havoc with the estimates and hopes of the Budget. The financial crisis in Austria and Germany had caused heavy losses in London, and the danger of a general crash had only been postponed by the Hoover moratorium. Gold withdrawals from London forced the Bank of England to obtain credits from Paris and New York for the safeguarding of the gold standard, and the position was highly critical when Mr. Snowden opened his supplementary Budget on September 10th in an atmosphere of extreme tension and suppressed excitement. His task, he said, was one of the most disagreeable he had ever been called upon to perform, and was only made tolerable by his knowledge that the sacrifices he was about to propose were necessary to avoid still greater ones in the future. Apart from foreign opinion, which was nervous about our position, it was essential for our own sakes to put our finances into a condition of undoubted security and stability by taking adequate measures to meet and overcome the deficit. We had been living beyond our means; a long trade depression had reduced the yield of taxes and increased the expenditure; the unemployment insurance fund, which seven years ago had been paying its way, was this year costing the Exchequer £100 millions; the incomes of the people were falling, and the numbers of the unemployed had risen to approximately three millions; profits had declined, and in many industries wages were being paid out of capital. We had been under the delusion during this unparalleled depression that the expenditure of more prosperous times could be maintained; but now that the nation was paying nearly one-third of its total income in central and local taxation to the tax-collectors and rate-collectors, we must 'face up to the position, and I am going to do it this afternoon'.

There can be no doubt that Mr. Snowden did face up to it, and rose to the level of a great occasion. His Budget, simple, effective

and adequate to the end in view, courageously conceived and solidly constructed, will go down to history as one of the greatest financial achievements of modern times. It is certainly a landmark in the world's desperate struggle to combat the economic miseries left behind by the War, and to preserve the solvency of at least one great nation in a crisis which was shaking and threatening to overthrow the fabric of its credit. Mr. Snowden's task was to balance the Budget; and the deficit was so large that the problem could only be solved by combining a reduction of expenditure with an increase of taxation. Owing to losses in receipts through the Hoover moratorium and further losses of revenue due to the trade depression, he anticipated a deficit of some £40 millions on his own Budget. But the Government's determination to put an end to all borrowing for the Unemployment Fund and the Road Fund meant an additional charge of £34 millions on the estimates. Consequently this year's deficit would amount to over £74 millions if nothing were done; and next year's deficit would be much larger owing to the cessation of temporary revenue which he had derived from the dollar exchange account, &c., and also owing to further declines in revenue and additional charges which must be anticipated in the coming financial year. Thus he arrived at 'the appalling figure' of £170 millions deficit on the next Budget, an estimate which exceeded that of the May Committee by £50 millions owing to the unfavourable movements of trade and unemployment which had developed during the world crisis since their estimates were framed.

General consternation was produced in the House of Commons by these figures; and even when the Chancellor announced that the economies and retrenchments already adopted by the National Government would save £22 millions in the current year and £72 millions next year, and that he would 'save' £14 millions in the current year and £20 millions in the next by reducing the sinking fund, even then the gap remaining to be filled by new taxation seemed unmanageably large. But Mr. Snowden's proposals, though terribly drastic, proved amazingly simple and effective. He raised the standard rate of income-tax from 4s. 6d. to 5s. in the pound,¹ and added 10 per cent. to the surtax on high incomes. He increased the duties on beer, tobacco, and petrol, and made an

¹ He also reduced the income-tax allowances, which doubled the amount payable by small incomes.

addition to the entertainments tax. By these means he calculated that the £39 millions deficit for the current year and the anticipated £80 millions deficit for the coming year would be covered by taxation yielding over £40 millions in the current year and over £81 millions in the next. From these measures he anticipated a surplus of £1½ millions for the current year including a Sinking Fund of £32½ millions, making the real surplus of revenue over expenditure £34 millions. The whole scheme reflected immense credit on the uncompromising courage and financial ability of Mr. Snowden as well as upon the Cabinet, the House of Commons, and the country (which shortly afterwards endorsed it by giving a huge majority to the National Government at the general election), as a most disagreeable but necessary means of re-establishing confidence and averting catastrophe.

Curiously enough, as it now seems, Mr. MacDonald and his Cabinet based their appeal for support largely on the fear that unless the Budget were balanced the country might be driven off the gold standard. On the day after his financial statement Mr. Snowden explained in a broadcast conversation that the choice lay 'between this Budget, with its unpleasant economies and heavy taxation, or a paper currency worth no stable value and more or less the ruin of everybody'. But though the Budget was balanced and national credit restored, the mal-distribution of gold and the gold famine caused by War Debts and Reparations, drove the country off the gold standard before the end of the month. At that time over 66 per cent. of the world's monetary gold stock had been 'cornered' by the Bank of France and the Federal Reserve System of the United States. On Saturday, September 19th, the Bank of England decided to ask the Chancellor of the Exchequer for authority to suspend gold payments. On Sunday, the 20th, the Cabinet agreed, and on Monday, the 21st, Parliament passed a Bill making the sterling pound inconvertible into gold, as it had been from the outbreak of the War down to 1925. On balance the forced abandonment of gold, which had been so much dreaded, proved beneficial; for since that time the sterling pound has been far more stable than gold. From the autumn of 1931 to the summer of 1933 gold has continued to appreciate, and gold prices have suffered another disastrous fall in countries maintaining the gold standard, while sterling money has maintained its value with a slight appreciation,

thanks to good management by the Treasury and the Bank of England. Some improvement of trade and some reduction of employment took place in the autumn and early winter of 1931, owing partly to the premium on exports which was afforded by the depreciation of sterling in terms of gold. It is true that the loss of the gold bill on London and fluctuations in our exchanges with gold standard countries were a formidable drawback; but eighteen months later, when the United States followed suit and abandoned the gold dollar, it became clear that no satisfactory international gold standard could be restored until war debts had been settled and efficient measures taken to ensure the future stability of gold as a measure of value.

Mr. Neville Chamberlain's First Budget

Mr. Snowden's last Budget had raised the huge sum required for the national emergency without any deviation from the Free Trade principles of which he had been a consistent champion ever since his entry into public life. There is a widespread but completely erroneous opinion that Free Trade is incompatible with a large customs revenue, but in truth a much larger customs and excise revenue was raised by Great Britain under the Free Trade system, established by the reforms of Sir Robert Peel and Mr. Gladstone (between 1841 and 1860), than under the protective and preferential system which it superseded. The reason is that, under Free Trade, the whole of the proceeds of every customs duty, after deducting the cost of collection, goes into the Exchequer, whereas a part, and often nearly the whole, benefit of protective and preferential duties is pocketed by home or colonial producers, though the whole burden of these taxes falls upon the consumer in the shape of enhanced prices. Although several inroads had been made upon Free Trade during and after the War, first by the Coalition Governments of Mr. Asquith and Mr. Lloyd George, which were responsible for the McKenna Duties of 1915 and the Safeguarding of Industry Act of 1921 (with its key industry duties and anti-dumping duties), and lastly by a miscellany of protective duties imposed in Mr. Churchill's Budgets, yet these sporadic and haphazard experiments in Protection had left England a substantially free trade country. Mr. Snowden's last Budget may therefore be regarded as the last Free Trade Budget, just as the first Budget of Mr. Neville Chamber-

lain, which we are now to describe, was the first really Protectionist Budget since the repeal of the Corn Laws in 1846. This I say because, when Mr. Neville Chamberlain introduced his Budget on April 19th, 1932, a general protective and preferential tariff, comparable with that which existed before the Peel and Gladstone reforms, had been passed into law by the Import Duties Act. By that Act, a general revenue duty of 10 per cent. *ad valorem*, following a number of very high 'abnormal importation' duties, had been imposed on all imports into Great Britain, with the exception of a few staple foods and raw materials which were placed on the free list. The purpose of the general tariff, as Mr. Chamberlain had explained on February 4th, 1932, was first to raise revenue, and secondly to restrict imports. But in addition to the general tariff, the Act established an Advisory Committee of three, who were authorized to recommend additional protective duties up to 100 per cent. *ad valorem*. They made a number of recommendations, which were embodied in Orders by the Treasury. In respect of the articles with which they dealt, Britain became a highly protectionist country. At the same time, by excluding great quantities of manufactured goods which competed with home productions, they reduced the revenue which would have been obtained from a more moderate tariff.

The delight which Mr. Neville Chamberlain had displayed as his father's son in realizing the tariff reform projects of Mr. Joseph Chamberlain was natural enough; but it was also natural that Free Traders throughout the country should feel that they had been betrayed, for they had given their votes for National candidates at the general election of October 1931, not for the purpose of overthrowing the fiscal system, but for the purpose of defeating Socialism and introducing large economies to balance the Budget and reduce taxation.

Before Budget day, great expectations were entertained by Mr. Chamberlain's supporters; for although the promised economies had been disappointingly inadequate, and the estimates for the year were surprisingly high, it was thought that the new revenue derived from tariffs would at least make it possible to lower the income-tax and the beer duty. But instead of budgeting for a handsome surplus, the new Chancellor of the Exchequer found himself faced by the prospect of a small deficiency. He estimated

his total expenditure for the financial year ending March 31st, 1933, at £733 millions, including £276 millions for the charge of interest and Sinking Fund on the National Debt, though the Sinking Fund had been reduced to £32½ millions, and though nothing had been allowed for the next debt payment to America, which would be due in December unless the Hoover moratorium was continued. Fortunately there had been a small surplus on the previous year as a result of Mr. Snowden's Emergency Budget; indeed, the result was £10 millions better than it looked, because, of the £23 millions which were to be taken from the Dollar Exchange Reserve, less than £13 millions had actually been appropriated. The cost of unemployment had also been less than was expected. A heavy depreciation of capital, and especially of Stock Exchange values, accounted for a deficiency in the revenue from death duties and stamps; but the income-tax and surtax had yielded a large surplus, and Mr. Chamberlain testified to the 'heroic efforts' of the patriotic taxpayers who had paid up in response to his appeal.

Mr. Chamberlain did not exaggerate when he said that, in its financial and commercial aspect, the year 1931 was 'one of the gravest in our history'. War burdens and War Debts, under which John Bull had been staggering for so long, seemed likely to crush him to the ground. 'Taxes', said the Chancellor, 'have been piled upon taxes until it has no longer been possible to meet them out of revenue, and capital has had to be sacrificed.' Though he saw some slight signs of trade recovery, he budgeted for a further shrinkage in the revenue, estimating the total tax revenue from all sources at £729 millions, and the total non-tax revenue at about £35 millions. As against this total revenue of £764 millions, the estimate of expenditure was £766 millions. Thus, instead of the large surplus and abounding prosperity which tariff reformers had so freely predicted, ever since Mr. Joseph Chamberlain started his campaign, if only their proposals were accepted, there was acute depression of trade and revenue and a small prospective deficit. Consequently, instead of relieving taxation, Mr. Chamberlain announced that he would impose a duty of 4*d.* per lb. on foreign tea and 2*d.* per lb. on Empire tea. By this means, if his estimates proved accurate, he looked for a total revenue of £766,800,000. This excluded the self-balancing revenue and expenditure of over £59 millions for the Post Office and nearly £23 millions for the Road Fund.

It is evident from his Budget speech that Mr. Chamberlain had not realized either the effect of protectionist duties or the real meaning of the appreciation of gold and the fall of prices. He anticipated that the new protective duties would yield £33 millions, and asked triumphantly: 'Where could we have found this great sum if we had been debarred from the consideration of import duties?' But, of course, new duties on consumption cannot be imposed without reducing the yield of other branches of the revenue, and Mr. Chamberlain's very moderate anticipations of the yield from his protective tariff were to prove much exaggerated.

In a popular broadcast of his Budget on the following evening, he amazed the more instructed members of his audience by stating that the new customs duties were being paid by the foreigner, though he did not explain why, if that were the case, duties had not been imposed on all raw materials and food. The effect of the tariff had been disguised because, since Great Britain went off the gold standard, sterling prices had remained fairly stable, while gold prices had fallen 16 per cent. Thus the cost of the tariff to consumers had been concealed. But for the tariff, prices would have fallen.

Of the five Liberal Free Trade Cabinet Ministers, two—Sir John Simon and Mr. Runciman—had acquiesced in the change of fiscal policy. The other three—Sir Herbert Samuel, Sir Archibald Sinclair, and Sir Donald Maclean—tendered their resignations to the Prime Minister when the policy of a general tariff was adopted by the Cabinet. Mr. MacDonald persuaded them to remain by offering what was called the 'agreement to differ', of which they, and Lord Snowden in the House of Lords, made full use by voting and speaking against the Tariff Bill. They resigned, however, a little later in the year as a protest against the Ottawa treaties, which established a system of Imperial preferences involving many discriminating duties on foreign imports. Mr. Chamberlain's Budget was passed in June, and thereupon the Chancellor of the Exchequer, after effecting a great Debt Conversion scheme, went to the Ottawa Conference as one of the British Delegation.

Mr. Chamberlain's Second Budget

On April 25th, 1933, when Mr. Chamberlain opened his second Budget, he had another dismal story to unfold of declining trade

and revenue. During the first calendar year of Protection in Great Britain imports into the country had fallen from £861 to £703 millions, exports from Great Britain to other countries from £390 to £365 millions, and re-exports from £64 to a little less than £51 millions. Those who still cherished the medieval fallacy of a 'favourable' and 'unfavourable' balance of trade—which involves the fundamental absurdity that the greater a country's excess of exports over imports (though imports pay for exports!) the greater its prosperity—found a melancholy satisfaction in the fact that exports and re-exports had declined so much less than imports. But shippers and shipowners found no such consolation. For them and for the ports and the dock labourers a ton of imports is just as good and just as profitable as a ton of exports. It is true that a number of inefficient manufacturers, and some branches of agriculture which were stimulated by high tariffs, must have increased their production; but the appalling fact remained that in the first year of a general tariff the total overseas trade of Great Britain had fallen by nearly £200 millions, while the army of the unemployed had risen by nearly a quarter of a million. Never before in living memory had there been such a depression of British shipping and shipbuilding. Many great concerns had ceased to pay dividends for the first time, and others were bankrupt or semi-bankrupt. Instead of the prosperity promised by tariff reformers, the nation found itself worse off than at any time in the previous decade. A few newspapers tried to comfort their readers by pointing out that some other countries—notably the United States, whose debt and tariff policy had helped to produce the worst of the post-war crises—had gone downhill even more rapidly during the last twelve months. But Great Britain, a small island whose prosperity is entirely dependent on the prosperity of its customers in all parts of the world, can only suffer from the economic troubles of other nations; and Mr. Chamberlain did well to remind the House of Commons 'that we are not immune, that we cannot be immune, from those grim forces which hold the world in their grip'. He could, moreover, fairly claim that in one respect the National Government had made a good beginning. It had re-established confidence; and partly as a result of that fact, partly because the depression of trade had produced a glut of cheap money, a great conversion scheme had been launched successfully. The 5 per cent.

War Loan of £2,000 millions had been converted into a $3\frac{1}{2}$ per cent. security, which (along with some smaller conversion schemes and a large saving in the interest on the floating debt) meant a total interest saving of £52 millions, an important relief to taxpayers and a partial compensation for declining incomes and shrinking revenues. For the financial year ending March 31st, 1932, the interest on the National Debt was £289 millions which compared with £318 millions in 1927. For the next year it was £265 millions, and for the current financial year ending on March 31st, 1934, Mr. Chamberlain estimated it at £224 millions.

Trade was so bad that a small group of economists and business men, including Mr. J. M. Keynes, with some encouragement from *The Times* newspaper, had actually urged the Chancellor of the Exchequer to unbalance his Budget by borrowing a large sum of at least £200 millions for the treble purpose of reducing the income-tax, employing a few thousand of the unemployed on public works, and creating thereby an optimistic psychology among the people at large. As the National Government had been formed for the express purpose of balancing the Budget, this policy would have amounted to an abandonment of the chief reason for its existence, and a betrayal of the electors who had given it an immense majority in Parliament. Apart from this moral or political consideration, Mr. Chamberlain was right in refusing to listen to these siren voices. In the first place the only sound way to reduce taxation is to reduce expenditure; secondly to borrow for such a purpose would injure the national credit, increase the National Debt, and eventually add to the taxes which it was proposed to diminish. As Mr. Chamberlain showed, the loss of revenue on the income-tax could not possibly be recovered at the end of the three years' period during which it was to be reduced by a shilling in the pound; and he denied that any psychological advantages were likely to accrue; for, 'everyone would very soon perceive that I was only resorting to the rather transparent device of making an unbalanced Budget look respectable'.

We may now trace in brief outline the financial position in order to explain the quandary in which Mr. Chamberlain found himself, owing to the shrinkage of revenue and his failure to effect economies. His first Budget had ended with a deficit of £32 millions, resulting mainly from a debt instalment to the United States, which had not

been provided for as it was hoped that the Hoover moratorium would be extended. Apart from this unforeseen payment the estimated expenditure had been exceeded by £11 millions; and there was a shortage of £22 millions in the revenue, compensated, however, by a reduced charge on the debt. For tariff reformers and those who, like Mr. Keynes, had anticipated a revenue of from £60 to £70 millions from a general tariff, the most disappointing feature of the previous Budget was the yield of the new customs duties. Mr. Chamberlain's modest estimate of £32 millions had proved to be £10 millions more than his actual receipts—a result which he attributed partly to Empire preferences, but 'mainly to the fact that we were much more successful than I had anticipated in checking foreign imports'. He dwelt upon the reduction in the adverse balance of trade, but without adding that there had been also a severe shrinkage in our income from overseas investments, as well as from shipping and banking profits, which was closely connected with the decline of imports. These invisible items are estimated annually by the Board of Trade. According to the Board's official figures, which are, of course, only approximate, the favourable or credit balance of overseas trade, including both visible and invisible items, amounted to £23 millions in 1930, the last year of Free Trade or Free Imports. In 1932, with a Protective tariff in full operation, the Board of Trade found a debit balance of £59 millions, owing mainly to the heavy decline of income from overseas investments and in the earnings of British Shipping. That these losses had not been offset by an expansion of protected British industries through enlarged sales in the home market, was proved by the increase of unemployment, which, in spite of the reduced dole, had compelled Mr. Chamberlain to introduce supplementary estimates to cover an additional expenditure of £18 millions.

A large group of the Government's supporters had pressed for a reduction of £100 millions in the national expenditure, and had submitted a plan or series of plans for effecting drastic economies. In support of their proposals it was pointed out that the real expenditure of the country, owing to the fall of prices and the greater purchasing power of the pound sterling, had risen by far more than £100 millions since 1925 when trade was comparatively good and the income-tax paying class was much better off. The passage in which Mr. Chamberlain attempted to justify his failure to make further

economies was perhaps the feeblest part of his financial statement. Owing to this failure he could do little to relieve direct or indirect taxpayers; nor could that little be justified on sound principles of finance. After allowing for a further reduction in the yield of income-tax and surtax, he found himself faced by a small deficit, which he converted into a prospective surplus of rather more than £15 millions by suspending the Sinking Fund. After using this to reduce the beer duty, at a cost of £14 millions, he took £10 millions from a capital account in order to give a temporary benefit to certain classes of income-tax payers by restoring the old system of paying income-tax in two equal instalments. There were some other minor alterations in the Budget, including an addition to the taxation of heavy oils and a very desirable increase in the licence duties on heavy road vehicles, which were damaging the roads at the expense of the railways.

With this account of Mr. Chamberlain's second Budget my descriptive survey of post-war Budgets comes to an end. Those who desire to pursue the subject in fuller detail may be referred to the *British War Budgets* issued in this series in 1926 by Mr. J. E. Allen and myself. That volume takes the story down to the end of the Budget of 1924. Another series by Sir Bernard Mallet and Mr. C. Oswald George on a somewhat different method gives an admirable account of all the Budgets from 1914 to 1931.¹ No doubt, I think, can remain in the mind of any impartial student that the mischievous consequences of the War were still felt in the year 1933 by all classes of British taxpayers, and especially by investors and income-tax payers. The whole economy of the nation has been subjected to a strain which has more than once threatened the fabric of public credit and still involves burdens on the nation which, before the War, would have been thought intolerable. The general shrinkage of trade and the vast extension of unemployment bore eloquent testimony fifteen years after the conclusion of the War to its disastrous effects upon the public finances, the industries, the private capital, and the incomes of the people.

¹ See *British Budgets*, by Mallet and George, 2nd and 3rd series, published by Macmillan & Co., London.

BOOK II

TAXATION, EXPENDITURE, AND DEBT

CHAPTER I

THE GROWTH OF TAXATION AND EXPENDITURE

EVEN in 1913, many people complained of what they regarded as excessive Government expenditures and unduly heavy taxes, recalling Gladstone's horror at a Budget of £100 millions. Yet the national Budget was then under £200 millions—less than a quarter of what it is to-day, and the British taxpayer in 1933 found it hard to understand how he or his father could ever have grumbled twenty years ago. In order to show at a glance how the main items of expenditure have increased I give in the following table the principal figures for 1913-14, for the first post-war year, for the year when expenditure was at its lowest level since the War (1923-4), and for the latest year available.

Net Issues out of the Exchequer

	1913-14 £ mills.	1919-20 £ mills.	1923-4 £ mills.	1932-3 £ mills.
Consolidated Fund:				
National Debt Services	24	332	347	309
Other Services	13	16	36	33
Total	37	348	383	342
Supply Services:				
Defence Forces	77	604	106	103
Civil Services	54	569	239	343
Customs, Excise, and Inland Revenue	4	10	11	12
Post Office	25	48	50	59
Total	160	1,231	406	517
Votes of Credit (Military Operations)	..	87	..	..
Total Expenditure	197	1,666	789	859

Thus the burden of the debt (expressed in interest and Sinking Fund) was twelve times greater in 1932 than before the War, and most branches of public expenditure had grown enormously. The revenue has been increased correspondingly. The following table gives the main items of revenue for the same years as those in the

GROWTH OF TAXATION AND EXPENDITURE 235

previous table. But it should be observed that the figures for 1919-20 were swollen by sales of war assets and a great inflation of currency. The revenue from taxes was nominally higher in that year than in 1923 or 1932; but the rising value of the pound made the real burden far heavier in the later years than the comparative figures suggest. The comparison between 1932 and 1913 is, however, correct, as the purchasing power of the pound (measured by index numbers) was approximately the same in those two years.

Exchequer Receipts

	1913-14 £ mills.	1919-20 £ mills.	1923-4 £ mills.	1932-3 £ mills.
Inland Revenue:				
Income-tax and Surtax	47	359	330	312
Estate Duties	27	41	58	77
Other Inland Revenue	13	316	47	23
Customs and Excise:				
Customs	36	149	120	167
Excise	40	134	148	121
Motor Vehicle Duties	..	..	15	28
Total from Taxes	163	999	718	728
Post Office	30	44	52	70
Crown Lands	1	1	1	1
Receipts from Loans	2	15	13	5
Miscellaneous	2	281	53	23
Total Revenue	198	1,340	837	827

Thus when we compare 1913 with 1932 we find that taxation has grown to more than four times the pre-war amount; and certain taxes have risen in even greater proportion. For example, in 1914 the highest rate of income-tax was 1s. 2d. in the pound, and the highest rate of supertax (now called surtax) was 1s. 4d.; so that even the richest taxpayer was not called upon to pay more than one-eighth of his income to the State. In 1933, the standard rate of income-tax was 5s. in the pound, and surtax was graduated up to a maximum of 8s. 3d. in the pound. Consequently two-thirds of the income of the richest taxpayers were needed to pay these two taxes alone. The tax on beer was more than twelve times its pre-war rate. Moreover, a general protective tariff has been imposed upon most of the necessities and luxuries of life.

In considering the relative burden of taxation at different

236 GROWTH OF TAXATION AND EXPENDITURE

periods, several factors have to be taken into account. One of these (as we have seen) is the varying value of standard money. During the War and the immediate post-war period, the purchasing power of the pound sterling fell very rapidly, but since 1921 it has increased, sometimes rapidly, sometimes slowly, until now its whole-sale purchasing power is higher than in 1913. Generally speaking, wage-earners benefit from an increase in the value of money; but this is not invariably the case, because falling prices (especially if the fall is rapid) are often accompanied by bad trade, and by diminished incomes, whether from investment or from earnings. During the period from 1929 to 1933, an artificial shortage of gold (due to the sterilization of large stocks of gold in the vaults of the Federal Reserve Banks and the Banque de France), brought about a severe fall in prices; trade suffered very severely, and people's incomes generally diminished. Consequently there has been an immense addition to the weight of taxation. Thus in 1931-2 the average amount of taxation per head was nominally about the same as in 1923-4, namely £15 18s.; but the real burden of the tax revenue was really much heavier.

The comparative taxation per head in the United Kingdom and other countries is shown in the following table. In the United States and Germany, only federal taxes are included; and for this and other reasons,¹ the figures are not strictly comparable, but they serve to illustrate the relative costs of government and their relative growths since the war:

	1931-2	1913-14
	£ s. d.	£ s. d.
United Kingdom	15 17 11	3 11 4
France	10 0 2	3 7 0
Germany	7 0 5	1 10 8
United States of America .	5 18 2	1 7 11
Italy	4 9 7	2 2 8

There has been a marked change since the War in the incidence of taxation as between the different classes of British taxpayers. While every class pays more, the taxation of the wealthier classes has increased most. At the same time the burdens imposed since the War, on the wage-earners and others with small or moderate in-

¹ e.g. the burden of a protective tariff on consumers is much greater than that of a free trade tariff where customs duties are balanced and fortified by excise.

comes, have been partly balanced by higher wages and salaries and partly by enlarged expenditure on pensions and the social services. Thus the economic tendencies set up by war and post-war finance have made for a more even distribution of the national income, depleted though it has been by declining trade and rising taxes.

At the time of Sir Charles Dilke's Income Tax Committee in 1906, it was assumed that income from property and investments was 'certain', while an earned income was 'precarious'. Experience during and since the War shows that this assumption was ill-founded. While earned incomes might be, and usually were, raised as the cost of living rose, incomes from property and investment for the most part yielded the same amount of money, with no allowance for rising prices or increased taxation. It is true that many firms and companies earned large profits during the War, and yielded a handsome return even after they had paid the excess profits duty. But many big concerns, such as railways, gas-works, and waterworks, enjoyed no extra profits; gas companies, indeed, under the sliding-scale arrangement actually paid less dividends as the price of gas rose.

House rents, in most cases, were fixed or 'controlled', and even in 1933 much house property continued to be let at a rent below its market value. A tenant sometimes made more by sub-letting part of a 'controlled' house than he paid to the legal owner. Hundreds of stocks and shares, which yielded what appeared to be a safe income before the War, have ceased to yield any income at all. Many foreign governments—Russia is a glaring example, followed by Turkey—have either refused to pay the covenanted interest on their loans or are paying only a proportion of the interest, or are paying in promises to pay at some future date. Companies engaged in producing primary raw materials, such as rubber plantation companies, cannot (in 1933) cover their working expenses by the sale of their products. Others which produce the base metals or certain minerals, such as coal and iron, can hardly pay their way. Many shipbuilding and engineering firms are unable to pay a dividend even on their preference stocks.

Retail trade, it is true, has remained profitable, except in depressed districts, all through the War and post-war periods. Since 1921, shopkeepers have benefited by the fall in wholesale prices; for retail prices as usual have lagged behind.

238 GROWTH OF TAXATION AND EXPENDITURE

Among the wage-earners as a whole there has been an increase in earnings, against which must be set the terrible growth of unemployment in nearly all the staple trades. Generally speaking, those employed by national and local authorities and in the sheltered trades have gained and those in the export trades have lost. On the whole the unskilled workers have improved their position relatively to the skilled.

The Committee on National Debt and Taxation, over which Lord Colwyn presided (Cmd. 2800 of 1927), reported that during the four years ending 1926, 'the national income has fallen as compared with pre-war, and that a larger share of the national production has been taken by labour'. One result of this change was that real savings, which are made mainly by the income-tax paying classes, had decreased by a fifth or a quarter, i.e. at a rate of £150 to £200 millions annually as compared with pre-war.

The Colwyn Report contained some interesting statistics showing the estimated amount of taxation paid by persons with various incomes. In the following table the taxpayer is assumed to be married and to have three children under the age of 16, half his income being earned, the other half derived from investments.

Amount of Taxation

Income	1913-14			1925-6		
	£	s.	d.	£	s.	d.
£100 . .	6	12	6	12	19	6
£150 . .	8	7	2	19	3	3
£200 . .	10	10	0	22	12	9
£500 . .	35	8	0	42	0	8
£1,000 . .	82	19	2	144	1	8
£2,000 . .	168	11	6	386	10	4
£5,000 . .	477	14	2	1,477	3	0
£10,000 . .	1,177	14	6	4,007	18	0
£20,000 . .	2,587	9	2	9,745	19	0
£50,000 . .	6,767	8	2	28,863	19	0

As will be seen from the above table, taxation on the lowest incomes had grown to approximately double the pre-war amount, but on the highest incomes it had quadrupled.

During the War critics of national expenditure and extravagance hesitated to carry on an active campaign for fear of jeopardizing the country's military success; and even in the two years after the War, criticism was comparatively small in volume

and negligible in effect. This was largely due to the results of the War itself. The expenditure of 1920 and 1921, though immensely greater than that of pre-war years, was much less than that of 1915-19; and again, people were willing to pay so long as the short post-war boom lasted, while a visionary paradise with 'homes fit for heroes' was dangled before their eyes. But during the winter of 1920-1 the situation completely changed. In the summer of 1920 the level of wholesale prices was three times that of 1914; but in 1921 it sank rapidly, and the trade depression, which now followed the post-war boom, proved more acute than any in the modern history of Great Britain.

Even before this happened some enlightened people, recalling previous post-war experiences, had foreseen the inevitable consequences to trade of general impoverishment and over-taxation, and had pressed upon the attention of the Coalition Government the seriousness of the country's financial position. For example, in July 1920 a number of influential peers, bankers, and merchants (including Lord Salisbury, the late Lords Incheape and Cowdray, Mr. Walter Leaf, Sir A. Vassar Smith, and others) wrote to *The Times* pointing out that unless something was done to stem the tide of public expenditure the nation might soon be faced with financial and economic disaster. In Parliament Sir Godfrey Collins, the late Sir Donald Maclean, and a number of independent Conservative and Liberal members were criticizing the bloated estimates; but to all these warnings the Coalition Government turned a deaf ear so long as the boom lasted.

Then came the slump. Unemployment assumed gigantic proportions, and trade dwindled rapidly. But the bureaucrats, strongly entrenched in Whitehall, were difficult to move. Even the Treasury had ceased to be the watchdog of Economy, having itself become a spending Department. But public opinion gradually made itself felt. The Government began to do badly at by-elections; and Ministers were alarmed by the large number of Conservatives and Liberals in both Houses of Parliament who were beginning to show fight against the estimates. Curiously enough the first move came in the House of Lords. On March 3rd, 1921, Lord Buckmaster, a Liberal ex-Lord Chancellor, carried a motion declaring 'that the future safety of the nation demands an immediate and drastic reduction in public expenditure to a limit at which the burden of

taxation would not seriously injure trade and industry'. On April 11th Mr. G. Locker-Lampson, a private Conservative M.P., carried many Ministerialists into the Lobby to vote for a motion which urged the 'imperative need for more economical administration'. Outside Parliament some leading bankers on May 12th issued a protest against restrictive and protective measures which hampered trade and limited imports; they also declared that the excessive rate of national expenditure involved a burden of taxation 'which in our judgment is more than the commercial community can bear'.¹

There were indeed abundant grounds for complaint. The national expenditure, which before the War stood at £197 millions, or £4 7s. 4d. per head of the population, had, in 1920-1, risen to £1,195 millions, or £26 2s. 3d. per head. In 1921-2 expenditure was only a little lower, at £1,079 millions. At this time the French, it was estimated, were paying about £16 per head, the Americans £11, the Belgians £7, and the Italians only £4.

The main causes of this enormous growth were: increased interest on the debt, war pensions, and social services, along with quite superfluous additions to the Army and Navy; but almost every department showed an increase. The Civil Services cost £57 millions in 1914 and £497 millions in 1920. The national expenditure upon education had increased from £15 millions to £45 millions; the Ministry of Health, whose activities absorbed only £4 $\frac{1}{4}$ millions in 1913-14, had embarked on a costly housing scheme since the War which helped to swell its vote to over £20 millions in 1920-1.

It is true that the currency had been demonetized and debased. But even allowing that a paper pound had only from one-half to two-thirds of the pre-war value of a gold sovereign, the tax-paying citizen was still left with plentiful grounds for complaint against the tax-eating bureaucrat. Nor were the very heavy increases in national taxation the whole burden he had to bear; for local rates were also much higher. The expenditure from rates by the local authorities on education alone had increased from £16 millions in 1914 to £30 $\frac{1}{2}$ millions in 1920-1, and the growing cost of roads had also augmented the burden of local rates.

¹ Just before this the Treasury had reckoned 'that the total expenditure of the United Kingdom on the War between August 1914 and November 1920 was £11,196,927,000'.

At last, in May 1921, the Chancellor of the Exchequer (Sir Robert Horne) issued a circular to all Government Departments, requiring them to make drastic cuts in their expenditures. They were asked to effect a total reduction of £113 millions, a figure subsequently raised to £175 millions. In response to this circular, the Departments suggested economies amounting to £75 millions. There was thus a further £100 millions to be saved, and it was to achieve this that the famous 'Geddes Committee' was set up. On August 3rd, 1921, Sir Robert Horne announced the appointment of a Committee on National Expenditure, consisting of Sir Eric Geddes (Chairman), Lord Inchcape, Lord Faringdon, Sir J. Maclay, and Sir W. Guy Granet. By its terms of reference the Committee was requested 'to make recommendations to the Chancellor of the Exchequer for effecting forthwith all possible reductions in the National Expenditure on Supply Services, having regard especially to the present and prospective position of the Revenue'.

After four months' work, the Geddes Committee began to issue its Reports, three in number. The first interim Report, issued on December 14th, 1921, covered the Fighting Services, Education, Health, and Old Age Pensions. It suggested reductions in these services amounting to £74,472,000. The second, issued on January 28th, 1922, dealt with the Board of Trade and other Trade Departments, Agriculture and Fisheries, Ordnance Survey, Police, Prisons, &c., and proposed reductions of £3,590,000. The third, issued on February 21st, 1922, covered the remaining Departments, and recommended further reductions of £8,782,000. The total reductions suggested by the Committee in these Reports amounted to £86,844,000, and the Committee stated that more than £13¼ millions, necessary to complete the total of £100 millions, could be realized by reductions in (1) naval expenditure, as a result of the Naval Conference then meeting at Washington, (2) naval oil stocks and storage, and (3) military garrisons stationed overseas. Furthermore they entertained 'no doubt whatever' that a close scrutiny of expenditure in the Departments themselves and by the Treasury will disclose the possibility of further economies on the lines they had followed, as their investigations could not be exhaustive.

For a time many of the Geddes Committee's recommendations were ignored. In a speech delivered at Sheffield on May 19th, 1922,

242 GROWTH OF TAXATION AND EXPENDITURE

Sir Eric Geddes said that the Government had adopted only £36,700,000 of the savings recommended and added:

‘You cannot get industry going with this load of debt hanging round its neck. It is strangling industry. The only thing that matters is to get down taxation or we die. We must run risks, and, to my mind, the risk which we must not run is the risk of industrial extinction.’

Lord Inchcape uttered a similar warning at the Mansion House, London, on April 24th, 1922, when he said:

‘The first line of a country’s defence and of the defence of civilization is solvency. We have got into a position where many can only pay rates and taxes by realizing assets and so diminishing the funds needed for the expansion of business.’

Happily the movement for public economy continued to exert a powerful influence; until eventually (as the combined result of the recommendations of the Geddes Committee and the work of the Treasury officials) the national expenditure in 1922–3 fell £200 millions below the previous year, and a further reduction of more than £100 millions in 1923–4 brought it down to £789 millions, the lowest point reached since the War.

But in the subsequent years, under Mr. Baldwin’s Government, with Mr. Winston Churchill at the Exchequer, the national expenditure began to increase again. In his manifesto at the 1924 election Mr. Baldwin had appealed for further economy to the electors. To quote his own words, ‘the burden of taxation lies heavily upon industry and trade, diminishes real wages, and in a variety of ways adds to the cost of living. To assist in relieving the community of this burden the most rigid economy is essential.’ Mr. Baldwin received an overwhelming majority at the election a few weeks later; and in the King’s Speech of December 1924 the Cabinet endorsed the policy of retrenchment in two emphatic sentences:

‘The present heavy burdens of the taxpayer are a hindrance to the revival of enterprise and employment. Economy in every sphere is imperative if we are to regain our industrial and commercial prosperity.’

In his first Budget speech, Mr. Churchill, the new Chancellor of the Exchequer, announced that he was aiming at a reduction of £10 millions a year progressively in the Supply Services.

Unluckily these pledges and promises came to nothing. In the first year of this Government (1925–6) expenditure rose by £30

millions, and there were further increases in subsequent years. Comparisons with previous budgets were rendered difficult by a 'reform' of the national accounts undertaken by Mr. Churchill; but the following figures are on a comparable basis, omitting certain minor items which Mr. Churchill excluded from the accounts, but including the so-called self-balancing expenditure on the Road Fund and the Post Office:

Year	Chancellor	Expenditure
		£ millions
1924-5 . .	Mr. Snowden	791
1925-6 . .	Mr. Churchill	821
1926-7 . .	"	834
1927-8 . .	"	828
1928-9 . .	"	818
1929-30 . .	"	829

Many protests were made against the growing expenditure, and at one time it seemed as if the Government might eventually be wrecked on financial rocks. Mr. Churchill resorted to various raids on national assets in order to meet the increased expenditure without heavy additions to taxation. There were Budget deficits in 1925-6, 1926-7, and 1929-30. The Sinking Fund was reduced, and there was a marked decline in the national credit. In 1924 the Government had been able to borrow at £4 12s. per cent.; but it had to pay £5 per cent. four years later.

This added burden of taxation was felt with increasing severity; but the hopes of materially reducing it were as yet very slight. Pleas for economy and reduced taxation are usually commended by Ministers; but demands for increased expenditure were constantly being pressed. Even in 1933, after the crushing defeat of Socialism, it must be recognized that, while most politicians advocated economy in general, few were ready to apply it in any particular case.

At the General Election of 1929, however, questions of high finance played only a subordinate part. Unemployment having become the dominant issue, both the Liberal and Labour Parties put forward schemes for dealing with it. The Labour Party had already begun to oppose public economy openly; indeed, at its annual conference on October 3rd, 1927, the chairman of the party, Mr. F. O. Roberts, in sounding the keynote of a social policy, had

talked about 'the blight of economy'. When the Labour Party regained office in 1929, the national expenditure mounted faster than ever, though this was partly due to the de-rating scheme and other costly measures inherited from the previous Government. The estimates for 1930-1 amounted to £871 millions—nearly £100 millions more than the expenditure of 1923-4, in spite of the fall of prices in the interval. Mr. Snowden's estimates for the next year were even higher (£885 millions), and in addition it became necessary to borrow about a million pounds a week for unemployment benefit.

This high level of expenditure in a time of world crisis and falling prices could not be maintained, and the country was brought to the verge of insolvency. On the motion of Sir Donald Maclean, a Liberal of the Gladstonian school, a Committee on National Expenditure, with Sir George May as chairman, was appointed early in 1931 with terms of reference similar to those of the Geddes Committee. Its very alarming Report issued on July 31st, 1931, the day on which Parliament adjourned for the summer recess, helped to precipitate the financial crisis and the disruption of the Labour Government. The Committee foreshadowed a prospective deficit of £120 millions in 1932-3 if all borrowing were stopped, and they recommended immediate economies totalling £96 millions. Of this sum £66 millions were to be saved on unemployment insurance; most of the remainder was to be found by reductions in the pay of teachers, soldiers, sailors, and other State servants. Unlike the Geddes Committee, the May Committee suggested few detailed economies in the Departments. They accepted the Civil Service view that Treasury action could be relied upon to effect departmental economies.

As most of his colleagues would not agree to the measures necessary to save the situation, Mr. Ramsay MacDonald resigned and formed a National Government containing representatives of all parties. This was in August 1931, and Mr. Snowden (who remained at the Exchequer) presented an Emergency Budget in the following month. He now estimated that no less than £170 millions would have to be provided to balance the Budget of 1932-3. He proposed to provide this by economies amounting to £70 millions, a reduction of the Sinking Fund by £20 millions, and additional taxation amounting to £80 millions.

The rising tide of expenditure since 1925 had already put an end to the reductions of taxation which had been a regular feature of the earlier post-war Budgets. Apart from a few new tariff duties, which had been imposed partly for revenue,¹ partly for protective or 'safeguarding' purposes, the first formidable increase in taxation since 1921 occurred in 1930, when the income-tax was raised from 4*s.* to 4*s.* 6*d.* in the pound, while the rates of surtax were also increased, and a slight addition was made to the beer duty. In the emergency Budget of September 1931, still heavier burdens were imposed. Income-tax was raised to 5*s.* in the pound, and the allowances on which relief was given were much reduced. These changes in the income-tax were estimated to produce £51½ millions, which is approximately equivalent to the yield of an additional shilling in the pound. There was also an addition of 10 per cent. to the surtax, as well as heavy increases on a number of indirect taxes. As a result of all this additional taxation the revenue from taxes rose in 1931-2 to no less than £731 millions, the highest figure for ten years. In view of the great fall in prices, and the much diminished national income, this figure represented a far heavier real burden on the nation than the inflated totals of the immediate post-war years. Thus fourteen years had elapsed before British taxpayers felt the full effects of the Great War.

¹ The customs duties on petrol and silk produced a considerable revenue. Both were imposed by Mr. Churchill.

CHAPTER II

THE WAR DEBT OF GREAT BRITAIN

THOUSANDS of years ago, in various parts of the world, where primitive communities of men had begun to progress under settled government in empires or city states, individuals who had accumulated wealth in herds of cattle, or flocks of sheep, or stocks of tools and manufactured goods, or in hoards of gold and silver, began to lend it out at interest to poorer but energetic workers who promised to repay them. Thus arose those relations between creditors and debtors, or between investors and borrowers, which have contributed on the whole to the progress of wealth, but have also at times done much harm and produced much misery.

The modern history of bad banking, of extortionate money-lending, and of loans for war or armaments, illustrates the evil side of a system which is also responsible for developing many backward countries and financing productive enterprises of all kinds, including railways, roads, harbours, and sanitary works in regions which might otherwise have remained undeveloped and uncivilized. Thus we are led to emphasize two vital distinctions—the distinction between productive and unproductive debts, and the distinction between public and private debts. Debts for war and armaments represent the most formidable and mischievous form of unproductive debt, resembling, in private transactions, loans by money-lenders to extravagant youths, or loans by bankers to fraudulent financiers, like Kreuger of Swedish match notoriety. Debts successfully launched for productive purposes are capital, represented by remunerative assets, which, under favourable circumstances, as in the case of Argentine railways or irrigation works in India, provide profits to the company or revenue to the Government which has undertaken them, and at the same time increase the welfare of the people in the country they serve.

On the other hand, money advanced to ne'er-do-weels is wasted on luxuries, and usually completes their ruin; loans to financial rogues end in heavy losses to banks and investors. Worst of all, war loans enable nations to go on fighting until they are bankrupt; and when accounts are wound up, there is nothing to show for them but slaughtered or maimed soldiers and dead-weight debts which

have to be repudiated or partially confiscated, or at best continue for generations as a mortgage on the wealth and resources of nations. It is a melancholy reflection that a vast proportion of the world's debts, more especially those of the great Powers, are of this nature. They were incurred mainly for war and armaments, and sometimes in the case of defeated countries they are partly made up of indemnities or reparations.

Since the Great War, and in consequence of the Great War, the debt problem has assumed proportions so gigantic and so complicated that all the resources of post-war statesmanship from 1919 to the present year, 1934, have been unable to provide any tolerable solution.

In 1924 a committee was appointed by the British Government to take evidence and report on National Debt and Taxation. It was known as the Colwyn Committee from its chairman, Lord Colwyn. In the spring and summer of 1924 it took evidence from a number of civil servants, economists and representatives of the Trade Unions, Chambers of Commerce, and other bodies. In giving evidence on that occasion, I observed that at first sight the two most striking features of our National Debt were its prodigious size and the fact that it was practically all dead-weight debt, representing not living capital, lent to the Government by private investors, or taken from the people's earnings by taxation and then applied to useful purposes or reproductive undertakings, but capital destroyed, and therefore dead—spent almost wholly on economic waste, i.e. on war and armaments. About one-tenth of the debt existing in 1924 was incurred in that way between 1688 and 1904, after the end of the Boer War. Reductions were made during lucid intervals of peace, usually by means of an effective Sinking Fund, which operated at a satisfactory rate from 1906 to 1914. The great bulk of our existing debt, the remaining nine-tenths, was contracted between 1914 and 1920, after which there was some diminution until the rapid growth of unemployment after 1929 again unbalanced the Budget.

One of the questions asked by the Colwyn Committee related to the distinction between internal and external public debts—a distinction which in 1924 had already attained importance owing to the very heavy burden of external debt which Great Britain had assumed by funding its War obligations to the United States.

Most of the belligerent countries had already confiscated the greater part, or the whole, of their internal debts by the simple process of issuing paper money, until, as in the cases of Germany and Austria, it became quite worthless, or, as in the cases of Italy, France, and Belgium, it lost most of its value. The Russian Government went so far as to repudiate the whole of its external bonds, borrowed chiefly in francs from France or in sterling from London. For a time the holders of British Consols and other funds which constituted the pre-war debt, suffered considerably owing to the depreciation of sterling. But after 1921 prices began to fall again, and the pound recovered its value, until at last in 1932, measured by wholesale prices, its purchasing power was even higher than in 1913. Hence the burden of both the internal and external War Debts was more than doubled, though after their conversion to lower rates of interest the taxpayer should have received substantial relief.

Although as a general rule, when international trade and international payments are not obstructed by prohibitively high tariffs or currency restrictions, it does not matter whether one has to pay a given sum in interest to a home or to a foreign creditor, it may matter very much in the case of a large public debt or indemnity. The difficulties of making large debt payments to a foreign country year after year may, and in fact have, become insuperable. As the present writer pointed out to the Colwyn Committee, the statesmen and officials who arranged for the funding of the British debt to the United States and for the payment of Reparations by Germany seem not at all to have appreciated the nature of international trade (which is essentially barter) or the practical impossibility of transmitting immense cargoes of goods or immense sums in gold year after year in return for nothing. Furthermore, the payment of the British War Debt to the United States was limited by the willingness of the creditor country to receive payment in goods; and the raising of the American tariff compelled Great Britain to pay its debt largely in gold, though the war loans had been made in the commodities and manufactures of the United States.

As to the policy which should have been adopted, the writer made some observations before the Committee which are now relevant because they point precisely to the mischiefs which have since developed, culminating in terrible misfortunes alike to Europe and the United States between 1929 and 1933:

‘There seems to be ample ground for a revision of the agreement with America. In the first place the American Government, by raising its tariff since the debt was contracted, has shown that it does not want payments in English goods, and has done its best to obstruct payments in that form. Whether it is lawful for a creditor government to tax and take toll of a debtor government’s payments is at least open to doubt. Washington, Jefferson and Hamilton took this ground against British creditors after the War of Independence. Anyhow it is very unfair and works badly. The result has been that the debt, being payable in gold, has caused great exports of gold to the United States, and a dangerous accumulation there. The United States cannot use its gold accumulations without causing a depreciation in the price of gold with a consequent inflation of credit and prices. Thus the British payments of war debt to America, while a heavy burden on our taxpayers and a source of grave difficulty to our Treasury, are proving of doubtful benefit to our creditors. Certainly they gain much less than we lose. We might fairly ask (1) that the capital should be reduced in accordance with the fall in prices and the rise in the purchasing power of gold since 1917 and 1918. We might also fairly ask (2) that British exports to the value of the interest payments should be received duty free into the United States on the broad legal principle that a creditor is not entitled to obstruct, or levy a toll on, the payments of a debtor. In return for these reasonable concessions we might agree to restore the gold standard, thus enabling the United States gradually to get rid of its surplus hoards of gold and at the same time give stability once more to the precious metals. Strongly as I myself favour the restoration of the gold standard, I cannot help wondering whether it can be safely restored and securely maintained under the conditions of Mr. Baldwin’s compact with the American Treasury, which might involve an export of thirty millions in gold in a single year from London to New York.’¹

What actually happened was, that for several years America, Great Britain, and smaller creditor countries made very large loans to Germany, which enabled her to pay the Reparations, and these, in turn, helped the Allies to continue payment on their War Debts to the United States. But as the United States’ tariff was raised again and again after the War, and the debts were payable in gold dollars, a stream of gold, flowing irregularly from Europe to the United States, and also to France (which had a large balance of Reparations over War Debts), began to make gold scarcer and dearer, until the burden of all gold debts contracted during the War-inflation was doubled or trebled. At the same time a competition in protective tariffs and exchange restrictions imposed by

¹ See *Minutes of Evidence before Committee on National Debt and Taxation*, vol. i, 1927.

distressed countries brought things to such a pass after the Wall Street collapse of 1929, that Britain was driven off the gold standard in 1931; and the greatest financial and banking crisis ever known in the United States culminated (March 1933) in a general moratorium, a temporary closing of all the American banks and finally an abandonment of the gold standard and a repudiation of the gold dollar clause in all contracts.

That these disasters grew out of the War and War Debts cannot be gainsaid. Meanwhile, as has already been observed, the defeated countries had either repudiated their debts, like Russia, or, like Germany and Austria, had confiscated all their internal debts by issuing paper money until the paper money became valueless. All the victorious countries except the United States, Great Britain, and Japan likewise inflated their currencies, and confiscated in this way, not the whole, but the greater part of their debts, stabilizing their currencies after two-thirds, or more, of the money lent by private investors to the State had been lost. In this way the wealthy and middle classes in Russia, Poland, Germany, France, Italy, Austria, Czechoslovakia, Hungary, and the Balkans, were reduced to comparative poverty or complete indigence; and in many of these countries private capital was practically annihilated. Germany was just able to struggle on to its legs, and pay reduced Reparations for a few years with the help of loans raised in the United States, Great Britain, and some of the small neutral countries; but the end of Reparations has already come, and following the example of Italy, Germans have turned in desperation to a new form of Anti-Semitic Fascism. In all these countries, as I have said, creditors and investors have been ruined by the accumulation of war debts and by the bankruptcy of the Governments to which they lent their fortunes and savings during the War. Great Britain, in virtue of her accumulated wealth and drastic war taxation, maintained her national credit and even restored her currency for a time in 1925, while the United States, which only took part in the later stages of the War, had apparently recovered its prosperity five years after the conclusion of peace. But, owing to the rapid appreciation of gold, the burden of debts and taxation (coupled with declining trade and profits at home and abroad) forced Great Britain off the gold standard in September 1931; and in the spring of 1933, as we have seen, similar causes, accentuated by bank

failures and an unprecedented agricultural crisis, induced President Roosevelt to abandon the gold dollar for the purpose of relieving debtors and in the hope that he might revive trade by engineering a rise in prices.

We may now examine one of the major causes of the financial and economic troubles of Great Britain in the last nineteen years—the unprecedented growth of a War Debt contracted during a period of unparalleled inflation, when the value or purchasing power of the currency was depreciating rapidly. To begin with the broad facts and figures: at the end of March 1914, our National Debt stood at about £650 millions, a considerable reduction on the total which it had reached nearly a century before, at the close of the Napoleonic Wars. On March 31st, 1919, our total external and internal debt (taking the external debt at the par of exchange) amounted to £7,434 millions; and as no effective check was put upon extravagance, it had risen a year later to £7,828 millions. As the rates of interest payable on this vast debt were much higher than those paid on the National Debt before the War, the charge for interest, which fell upon the taxpayers, had multiplied at an even greater rate than the principal of the debt itself.

The South African War, the last serious struggle in which Great Britain had been engaged, only added £163 millions to the debt, most of which had been paid off during the interval which separated it from the Great War. Small as was the scale of the conflict with the Boers in comparison with the Great War, we may note several points of resemblance. Both wars lasted far longer and cost far more than they were expected to do at the outset. Both wars were financed mainly, and to far too large an extent, by borrowing. In both cases the Government of the day proclaimed to the country, for the purpose of a general election, that a large part of the cost of the War—if not the whole of it—would be paid by others—in the former case, by the Rand mine-owners, in the latter by Germany and the other defeated nations. In both cases these promises and expectations were unfulfilled. Instead of defraying the cost of the Boer War from the Transvaal gold-mines, we lent our former enemies (since then fellow citizens of the Empire) some £30 millions to repair the ravages of the War. After the Great War Mr. Lloyd George and Mr. Bonar Law promised the electors that Germany should be made to pay the cost of it, and one of their

colleagues (Sir Eric Geddes) declared that she should be 'squeezed until the pips squeaked'. During the election campaign of December 1918, Mr. Lloyd George mentioned £24,000 millions as the sum which might be exacted by way of war indemnities.

As the years wore on, the amounts demanded on account of Reparations were scaled down at successive European Conferences. In 1924 the 'Dawes Plan' put the matter on a comparatively business-like footing; but five years later, the 'Young Plan' had to be devised to reduce the payments further and to meet the difficulties of transferring currencies to other countries. The 'Young Plan' made no provision for changes in gold values, and it broke down when Germany was no longer able to borrow abroad. Substantial Reparation payments were made by Germany both in money and in goods between the years 1918 to 1931—they were valued by the British Government at a total of £1,026 millions—but the cash payments to the Allies did not exceed the amounts borrowed by Germany from the United States, Great Britain, and Holland. As soon as the stream of borrowed money ceased to flow into Germany, the German Government declared that it was no longer able to make the agreed payments on account of Reparations. The 'Hoover Moratorium' operated for one year from July 1st, 1931; and this was followed by the Lausanne Conference in July 1932, at which it was decided that, subject to the ratification of the agreement (which also dealt with inter-Allied Debts), the payment of reparations should cease entirely.

In round figures the War added £7,000 millions to the British National Debt. This is a staggering burden; but the British method of paying in full, and of converting the loans from higher to lower rates of interest is far preferable to the total or partial confiscation which has been adopted by all the belligerent nations of the Continent. Public credit has been maintained. Public debts have been honoured. Investors have been fairly and justly treated.

Few of the belligerent countries tried to meet any appreciable part of the cost of the War by increasing taxation. Consequently, when it was over, they confiscated all or most of their debts by issuing paper money. Even in Great Britain, as we have seen, several months elapsed before non-combatants were asked to make any pecuniary sacrifice; and during this period, a stream of new money from war loans and from the printing of Treasury notes

flowed into the pockets of munition workers and others. There was a rapid increase in the consumption of food, clothing, and other commodities, accompanied, of course, by a rise of prices. Instead of facing the privations which were bound to come, most of the people who remained at home found themselves with more money in their pockets than they had ever had before, and what was easily earned, was, in most cases, speedily spent. In view of Lord Kitchener's warning at the outset that the War might last as long as three years, the Ministry had no excuse for not enforcing rigorous economy by the simplest of all methods, i.e. by taxation. In the end the Government was forced to ration one commodity after another; it ought from the beginning to have rationed the nation's spending power. The vast addition to our National Debt between the years 1914 to 1920 was due not merely to the expenditure upon the War, but also to the errors in financial policy committed by successive Governments—to the failure to impose additional taxation in the early months of the War, to the mistakes made in connexion with the War Loans and Conversion Loans raised during the War, to the mismanagement of the inter-Allied War Debts, and to the almost criminal extravagance of the Coalition Government in 1919 and 1920. During those two years of inflation a capital levy might well have been imposed on the war fortunes, many of which afterwards evaporated so rapidly as prices collapsed.

The National Debt grew at the average rate of about £1,000 millions a year in the first half of the War, rising to approximately £2,000 millions in the second half. From the figure of £650 millions on March 31st, 1914, it grew to £1,100 in March 1915, to £2,100 in 1916, to £4,000 in 1917, to £5,800 in 1918, and to £7,400 in March 1919. There was a further increase in the first post-war year, and the Debt then reached the almost astronomical figure of £7,828 millions in March 1920.

Thus during the six years 1914–20, expenditure exceeded revenue by over £7,000 millions. The amount of additional taxation raised during the five war years has been estimated by Professor Bowley at £1,700 millions, and a further £500 millions were collected in excess profits duty in subsequent years.

Offset against the Debt was the doubtful asset of the sums owing to Great Britain by her Allies. In earlier wars, notably in those against Napoleon, it was the custom of the British Government to

subsidize its continental Allies; these subsidies, as a rule, were free grants, not loans. There was one case of a loan to the Austrian Empire which the British Government tried to collect after Waterloo, with small success. In the Great War the huge advances made by Great Britain, and afterwards by the United States, were called loans, and successive Chancellors of the Exchequer reckoned these loans, or a diminishing part of them, as good debts. The United States Treasury, recognizing that British credit was the best, insisted on lending most of the money to the British Government, and eventually demanded its repayment in gold dollars.

In order to raise the sums needed for the War, our Government first followed the plan of issuing a spectacular War Loan, backed by an intensive propaganda and appeals to patriotism. At a later date other methods were adopted, especially what was called day-to-day borrowing.

It was assumed, in the early years of the War, that each War Loan must offer a higher rate of interest than the last. Thus the first War Loan, issued by Mr. Lloyd George on November 17th, 1914, was in $3\frac{1}{2}$ per cents. at £95, redeemable at £100 between 1925 and 1928, so that the real rate was between $3\frac{3}{4}$ and 4 per cent. This loan brought in £332 millions. The next loan was offered by Mr. McKenna on June 21st, 1915, in $4\frac{1}{2}$ per cents. at par. Conversion rights were given to holders of the $3\frac{1}{2}$ per cent. loan, who could obtain £200 of the new stock by surrendering £100 of the old loan and paying £105 in cash. Mr. McKenna also undertook that in the event of another *long-period* loan holders should have the right of converting their $4\frac{1}{2}$ per cent. stock into it at par.

Looking back it seems fairly certain that Mr. McKenna made a mistake in offering so high a rate as $4\frac{1}{2}$ per cent., since the first result was to cause a general fall in the value of pre-existing securities. For some time after the second War Loan the Chancellor of the Exchequer relied partly on day-to-day borrowing through National War Bonds and War Savings Certificates. At the same time he used the old machinery of Treasury Bills and Exchequer Bonds. These short-term loans were raised at steadily increasing rates of interest. Thus the rate for three months' bills was $2\frac{3}{4}$ per cent. on April 14th, 1915, on August 9th it was $4\frac{1}{2}$ per cent., on October 27th $4\frac{3}{4}$ per cent., and on November 12th it rose to 5 per cent.

On January 11th, 1917, Mr. Bonar Law announced a third War Loan, in 5 per cents. at £95. This loan was successfully floated, and brought in no less than £2,070 millions. At the same time a 4 per cent. Income-Tax-Compounded Loan was offered at £100, but only £51 millions were subscribed. Mr. Bonar Law announced that no future loan would offer a higher rate of interest. In order to maintain the market price of his two loans, he established a 'Depreciation Fund', and the Treasury undertook to set aside monthly a sum equal to one-eighth of 1 per cent. of the amount of each loan, to purchase stocks of either loan for cancellation whenever the market price was below the issue price.

After the War one of the first aims of our Chancellors of the Exchequer was to reduce the rates of interest on War Loans. The £2,000 millions of the 5 per cent. loan proved a hard nut to crack. Many attempts were made, but without much success, until in July 1932 Mr. Neville Chamberlain seized the psychological moment to issue a 3½ per cent. Conversion Loan at par, offering to pay off in cash those holders who would not accept.

Just as the three War Loans, with their rising rates of interest, had suddenly lowered the market prices of existing gilt-edged stocks, so Mr. Chamberlain's Conversion Loan suddenly raised the market price of sound securities. Since the War the Stock Markets have been dominated by the enormous volume of Government Stocks, which have become the natural outlet for financial institutions possessing idle funds. The British Government debt represents more than half the market value of all the securities listed on the London Stock Exchange! Another result of the issue of War Loans, Bonds, and Savings Certificates—on terms more attractive than had been dreamed of before the War—has been a wider distribution of capital. Many wage-earners, especially those employed in munition factories during the War, were able to save, and have, through the facilities offered by Government Loans, become capitalists in a small way.

Since the War, taxation has been maintained at a high rate, and large sums have been applied to the reduction of the Debt; but there has been very little net reduction in the capital burden owing to the operation of the various conversion schemes under which bonds or stock bearing a high rate of interest have been exchanged for a larger amount of stock paying a lower rate. A

conspicuous example of this doubtful method of financial procedure was Mr. Austen Chamberlain's Conversion Loan of April 1921, under which £100 of 5 per cent. War Bonds were exchanged for £160 to £163 of the new stock, according to the date of maturity. Another example occurred in January 1925, when £59,600,000 of Government stock was issued at $77\frac{1}{2}$ per cent. Again, in September 1927, an offer was made to holders of $3\frac{1}{2}$ per cent. War Loan, 1925-8, at the rate of £132 of Conversion Loan for every £100 of War Loan. These transactions may have relieved the strain on the Treasury at the moment, but they involved a very large increase in the capital burden of the War Debt which was not balanced by any compensating reduction in the annual interest charge.

At the end of the War, the Government found itself in possession of huge stocks of war stores of all kinds, which were no longer needed. For the next year or two very large sums were obtained by the sale of these stores, but the money, instead of being used to redeem debt (as it should have been, since the stores themselves had been bought out of borrowed money) was treated as revenue.

Changes in the nominal amount of the debt since 1920 are shown in the following table supplied by the Financial Secretary to the Treasury to the House of Commons on May 1st, 1933:

Year ended March 31st	Net increase or decrease in the amount of nominal debt.
	£ millions
1921	-254
1922	+80
1923	+88
1924	-101
1925	-43
1926	-39
1927	-4
1928	-27
1929	-27
1930	-31
1931	-56
1932	+21
1933	+211

The large increase in 1932-3 is due to the inclusion of £23 millions for the expenses of the Conversion Loan and £150 millions borrowed for the Exchange Equalization Account. In the year 1933-4 a further £200 millions is to be borrowed for this Account, and the Sinking Fund is entirely suspended, and there will thus be a further

large addition to the nominal amount of the debt. If we exclude the amounts provided for the Exchange Equalization Account, against which assets are held, it will be seen that in the thirteen years covered by the above table the net reduction of debt was only £332 millions, the bulk of which was effected in 1921-2, and this sum is far below the amount realized by the sale of war stores.

BOOK III
TRADE, EMPLOYMENT, AND WAR CASUALTIES

CHAPTER I
EFFECTS OF THE WAR ON THE OVERSEAS TRADE
OF GREAT BRITAIN

FROM the moment when war was declared (August 1914) British trade with the enemy countries was completely cut off. The suspension of trade with Germany—our largest customer in Europe—involved several of the great finance houses of London to such an extent that their bills had to be guaranteed by the Government and the Bank of England. To the severance of trade with Germany and Austria, and a little later with Turkey and Bulgaria, must be added the almost complete suspension of commerce with Russia and Rumania owing to the German control of the Baltic, and to the fact that Turkey held the outlets to the Black Sea.

At the commencement of the War our commercial communications with the Far East and South America were partially interrupted by German cruisers; and later on the German submarine campaign made large inroads on British shipping, which led to severe restriction of luxury imports. During the War, which lasted for over four and a quarter years, the whole character of British overseas trade was altered. Its interests were subordinated to strategy, and circumscribed by the exigencies of a struggle involving the very existence of the nation and the Empire. So long as the United States remained neutral, the attempt to blockade Germany, by restricting the imports of Scandinavia and Holland, was hampered by the necessity for avoiding a conflict with American interests, though American manufacturers were reaping enormous profits from their exports of food, munitions, and other commodities at high prices to Great Britain and France.

As the struggle became more and more desperate and the size of the British Army grew into millions, our power of exporting staple manufactures to neutral countries, to India, and to the British Colonies, was rapidly diminished. Vast numbers of our mills were turned into munition factories, and the lack of shipping facilities made it more and more difficult for Britain to compete with Japan

and the United States in the Far East and in South America. When the War came to an end, the loss of so much trade and goodwill to competitors in overseas markets was severely felt. Many old clients were gone. In many cases there could be no return to normal conditions. Moreover, the recovery of our old trade was hampered by hundreds of embargoes and regulations,¹ which raised the cost of production at home, while new tariffs and restrictions abroad also operated injuriously against British commerce.

If Great Britain had not been compelled to finance its Allies and to supply them, as well as its own Army, with food and munitions, much of the borrowing both at home and in the United States, as well as the currency inflation, might have been avoided; nor would the excess of imports over exports have grown so rapidly. The following table, from the Statistical Abstract, gives the total imports and exports in sterling, but it must be remembered that after August 1914, when the gold standard was abandoned, prices were rising and the inconvertible paper money (still called sterling) was depreciating. The volume of our exports even in 1919 was much less than in 1913.

TOTAL VALUE OF THE IMPORT AND EXPORT TRADE OF THE UNITED KINGDOM IN MILLIONS STERLING FROM 1913 TO 1919

Year	Total Imports	Total Exports
1913 . .	£768	£634
1914 . .	£696	£526
1915 . .	£851	£483
1916 . .	£948	£603
1917 . .	£1,064	£596
1918 . .	£1,316	£532
1919 . .	£1,626	£963

According to a note appended to the above table in the Statistical Abstract (p. 289 of the 1928 edition), the figures for the period August 1914 to June 1917 include in the case of imports all articles of food, but do not include other goods which, at the time of importation, were known to be the property of the British Government or of the Governments of the Allies. In the case of exports, the figures for the same period include goods bought in the United Kingdom by, or on behalf of, the Governments of the Allies, but do not include goods taken from British Government stores and

¹ See an account of these and of their abolition in the chapter on D.O.R.A. (Part I, Book II, Chapter III).

depots, or goods bought by the British Government and shipped on Government vessels.

In July 1917 and subsequently the figures of imports and exports include merchandise imported and exported in public as well as in private ownership, except exports for the use of British forces on active service.

In the next table of six years we see, first, the short-lived boom of both imports and exports, followed by the deflation and slump of 1921, and then a moderate recovery, along with an appreciation of the pound sterling, which enabled the country to return to the gold standard in 1925. With regard to this table, it should be noted that from April 1st, 1923, the Irish Free State is excluded from the United Kingdom. Hence the total of imports and exports after that date include the trade of Great Britain and Northern Ireland with the Irish Free State.

TOTAL VALUE OF THE IMPORT AND EXPORT TRADE OF THE UNITED KINGDOM FROM 1920 TO 1925

(In millions sterling)

Year	Total Imports ¹	Total Exports
1920 . . .	£1,932	£1,557
1921 . . .	£1,085	£810
1922 . . .	£1,003	£823
1923 . . .	£1,096	£885
1924 . . .	£1,277	£940
1925 . . .	£1,320	£927

On comparing the proportions per head of the population in 1913 and 1923, we find what appears to be at first sight a fairly satisfactory expansion; for imports rose from £16 16s. 10d. per head of the population to £24 3s. 10d., while the value of exports per head rose from £11 10s. 2d. to £15 18s. 7d. But the increase of values (i.e. sterling prices) was accompanied by a shrinkage in volume,¹ for an analysis of which we may turn to the admirable *Survey of Overseas Markets* published by the Balfour Committee on Industry and Trade in 1925.

In an Introduction to their *Survey of Overseas Markets*, Sir Arthur Balfour and his colleagues asked the following questions:

‘What has been the general trend of the world’s trade since the War?’

¹ See Appendix I.

‘How does its present magnitude compare with its magnitude in the years just preceding the War?’

‘Is the share of Great Britain in the aggregate world’s trade an increasing or a decreasing share?’

Ample statistical material for a reply to these questions is furnished on pp. 636–70 of the Report. The general result in currency values is summarized in a few sentences of the Introduction, which may here be reproduced:

‘In 1913 the aggregate sterling value of the exports of the world was £4,035 millions. In 1923... the corresponding aggregate was £5,299 millions, an [apparent] increase of 31 per cent. In the same two years the exports of the United Kingdom were valued at £525 millions and £743 millions [sterling] respectively, an [apparent] increase of 41 per cent. In other words, our proportion of the world’s export trade (measured in sterling values) rose from 13 per cent. in 1913 to 14 per cent. in 1923.

‘A very similar result is reached if the calculation is made in a slightly different way. The sterling value of the aggregate imports of the world (excluding the United Kingdom) was in 1913, £3,706 millions, and in 1923, £4,742 millions. Thus, the proportion borne by the value of our exports to the aggregate value of the imports from all sources into other countries was, in 1913, 14·2 per cent., and in 1923, 15·7 per cent.

‘Up to this point the results seem *prima facie* to be highly satisfactory. Measured in sterling values the world’s trade has increased, and of this increased value a larger share appears to have fallen to the United Kingdom.’

Unfortunately, as the Balfour Committee (writing in March 1925) observe, this superficially satisfactory conclusion assorts ill with ‘the excessive unemployment which has persisted in this country for the last few years’. If there had been no other explanation, it might have been necessary to suppose that the home market was shrinking while our overseas markets were expanding. But what is, of course, important in considering overseas trade and shipping, is not the values in currency, but the volume or quantities of the goods imported and exported; and during the period between 1913 and 1923 a great rise (followed by a moderate decline) occurred in the level of wholesale prices. In gold standard countries the rise was less than in Great Britain, where, owing to the depreciation of sterling in terms of gold, prices for a time trebled.

To show exactly what happened, we may compare the course of commodity prices between 1913 and 1923 first, in gold dollars, and secondly, in pounds sterling. The wholesale price index number of the Department of Labour at Washington gives the average

figures (I omit decimals) for the years 1913 to 1923 as follows: 1913, 69; 1914, 68; 1915, 69; 1916, 85; 1917, 117; 1918, 131; 1919, 138; 1920, 154; 1921, 97; 1922, 96; 1923, 100. This means that the purchasing power of 69 dollars in wholesale commodities in 1913 was equivalent to the purchasing power of 154 dollars in 1920. By the end of the War, taking an average of the years 1918 and 1919, the purchasing power of the dollar had been nearly halved; and in 1920—the year of the post-war boom—its purchasing power was less than half what it was in the year before the War. The highest point touched in this index number was 167 in May 1920, after which it sank rapidly for several months. In 1923 the purchasing power of a hundred gold dollars was equivalent to that of 69 gold dollars in 1913. Thus the dollar price-level of 1923 was about 45 per cent. above that of 1913. This then, roughly speaking, is the figure by which an American valuation of foreign trade, as between 1913 and 1923, would have to be corrected in order to arrive at the increase or decrease of its volume. Supposing that the value had risen 45 per cent. it would mean that the volume or quantity of imports and exports had remained about stationary.

In Great Britain sterling prices rose rapidly from the beginning of the War down to the end of 1917 at the rate of about 27 per cent. per annum—in all, according to Professor Bowley's computation, about 125 per cent. in the first three and one-third years of the War. During 1918 the rate of increase was checked by measures of control and the fixing of wages and prices. 'At the date of the Armistice', writes Professor Bowley,¹ 'wholesale prices were 140 per cent. above the pre-War level; that is, it took in general 240 shillings to buy what cost 100 shillings in 1914; or the pound had fallen to about the value of 8s. 3d. in pre-War money.' Next came a slight fall of prices for about six months. Then followed a speculative boom, based upon the false anticipation of a great and effective demand all over the world for all classes of goods. There was an immense feverish activity of manufacturing, and sterling prices rose rapidly from the summer of 1919 until, in May 1920, they were about 225 per cent. above the pre-war level, while gold dollar prices in the United States had risen about 170 per cent. above the pre-war level.

¹ See *Some Economic Consequences of the Great War*, chapter iii, p. 69.

The actual figures of the index number for wholesale sterling prices during these years may now be quoted from the *Economist*, taking the monthly average of January to July 1914 as 100—the basic figure. By December 1914 it had risen to 108; by December 1915 to 140; by December 1916 to 190; by December 1917 to 226; and by December 1918, after the Armistice, to 235. There was a brief but slight decline to 220 in March 1919, after which the figure soared to 323 in March 1920—the highest peak of British prices, when the paper pound sterling was worth less than one-third of its value in the months preceding the War, its purchasing power in wholesale prices being only about equal to six pre-war shillings. The averages of the *Economist* index number for the years are 129 in 1915; 167 in 1916; 212 in 1917; 234 in 1918; 244 in 1919; and 298 in 1920.

The rate of deflation was even more rapid than the rate of inflation; for in less than two years from the peak of 1920, wholesale prices in Great Britain were halved.

The average figures of the index numbers of the Board of Trade (which were used by the Balfour Committee in comparing the trade of 1913 with that of 1923) may here be given:

1913, wholesale price figure	100
1920 „ „ „	307·3
1921 „ „ „	197·2
1922 „ „ „	158·8
1923 „ „ „	158·9

In applying this corrective to the valuation of overseas trade the Balfour Committee admitted the difficulties of exact measurement. They observed:

‘The Board of Trade index number of wholesale prices indicated a rise of about 59 per cent. in 1923 compared with 1913. It is more difficult to state a percentage for the world as a whole, but we shall probably not be wrong in assuming a general rise of from 50 to 60 per cent. (or say 55 per cent.) in the world prices of commodities measured in sterling.

‘As the percentage rise in the value of the world’s foreign trade has not been much more than one-half of the rise of prices, it is evident that there must have been a considerable shrinkage in the real volume of that trade, and it is further evident that the increased percentage of the world’s trade, which appears from the figures to fall to our share, masks a real falling off in the total volume of goods exported from Great Britain. In order to measure this decline, . . . we have obtained from the Board of Trade the

results of re-valuing the external trade of the United Kingdom during recent years on the basis of the 1913 level of prices. . . . It will be seen that for the year 1922 the volume of our exports thus calculated was only 68·9 per cent. of the 1913 volume. In 1923 the percentage rose to 74·5.'

The Balfour Committee, however, gives reasons for thinking that these figures somewhat exaggerate the depression—partly because there had been a shift of the export trade towards higher and more expensive qualities of goods, as these suffered less from foreign tariffs and restrictions than the coarser qualities which were being manufactured with the aid of Protection in other countries. They conclude finally that 'the volume of our exports in 1923 was 79 per cent. of the 1913 volume, and that the corresponding figure for 1924 was 80 per cent.' Meanwhile the volume of our imports in the same two years was 94·9 and 106·4 per cent. of their volume in 1913.

It should be explained that, in the Report of the Balfour Committee, 'volume' does not mean the total quantity or weight of imports and exports, but the real value of imports and exports; i.e. the prices corrected by the index number, so that the pound sterling, in which the values of imports and exports are recorded, becomes, by the use of the index number, a trustworthy measuring rod of overseas trade. The Report notes that the weight of British exports is dominated by coke and coal, which, in 1924, amounted to $64\frac{1}{2}$ million tons, compared with about 14 million tons for all other British exports combined, though the value of the coke and coal exports from the United Kingdom in that year was less than 10 per cent. of the total value of exports. Consequently a weight or bulk measurement of foreign trade would be worthless for general purposes, though the amount of our coal exports is immensely important to British railways and shipping, where the weight or bulk of goods is of primary importance.

The investigations of the Balfour Committee indicate that in 1923, as compared with 1913, the prices of British exports had risen more than those of imports. In other words, the selling prices of the manufactured goods which constituted the bulk of British exports had risen more than the prices of the food and raw materials which constituted the bulk of British imports. When the Balfour Committee turned from general figures to the fate of particular British exports in various overseas markets, they remarked that

the falling off in exports to any given country must be ascribed to loss of purchasing power, or to growth of local manufacture, or to displacement of imports from Britain by imports from other countries. To which it may be added that the displacement of British manufactures by local manufactures since the War has been almost entirely due to deliberately protective policies adopted by foreign countries, by the self-governing Dominions, and also by British India, in this case with the acquiescence or approval—strange to say—of the British Government.¹ As between 1913 and 1923, the most serious of all the losses of overseas markets was a decline of 57 per cent. in the exports of British cotton-piece goods to India. Of this enormous loss more than half was attributed to the impoverishment and diminished consumption of the population of India, in spite of its great increase in numbers, while a quarter was due to the increased local production of Indian mills (assisted by the growing tariff) and only one-seventh to the displacement of British goods by the cheaper products of Japan and other countries.

A semi-official Committee, like the Balfour Committee, composed, so far as it was political, of members of all three parties, was naturally disinclined to enter into a full explanation of the appalling blows inflicted on the efficiency of British trade, its goodwill and its world-wide connexions, by the Great War. The death and maiming of thousands of young men who would have taken their place in the direction and management of business firms, and of tens of thousands of skilled artisans, were irreparable—and it is to be remembered that these losses were not inflicted upon two of our most formidable competitors in world trade, the United States and Japan. Then, again, the almost overwhelming burden of debt and taxation left by the War imposed a handicap which was alone sufficient to bring ruin upon many concerns after the collapse of the short-lived post-war boom. No doubt the orgy of waste and extravagance in which the Coalition Government of Mr. Lloyd George and Mr. Bonar Law indulged in 1919 and 1920 aggravated the collapse of 1921, and retarded recovery in the painful years of unemployment and depression which followed.

Another severe handicap was imposed by the unfortunate War Debt Treaty with the United States made by the Bonar Law Government at the beginning of 1922. Its disastrous consequences

¹ This policy was initiated by Edwin Montagu—see Part I, Book I, Chapter V.

to the London Money Market and exchanges were only fully developed during the world crisis of 1930 to 1933.

Nor does the Report of the Balfour Committee sufficiently recognize or explain the permanent effects of the War upon our great markets in the Far East and in South America. For more than four years British manufactures were largely displaced in these regions by those of Japan and the United States, and by the products of native factories, which were erected to supply the gap. Afterwards these infant industries were protected against the much superior products of Great Britain and the much cheaper products of Japan by high tariffs, or quotas, and exchange restrictions.

Nevertheless, very valuable information is provided as to the tariff barriers and other restrictions which had risen in all directions at the time of the Balfour Report, and were to rise far higher, with even more devastating results, a few years later. As the prosperity of Great Britain was more dependent than that of any other important country (with the possible exception of Holland) upon external trade and shipping, the growing obstructions to international trade and commerce inflicted heavier losses upon us than upon other nations, though our wealth and resources enabled us to bear these losses, and to provide for the maintenance of the unemployed far better than many comparatively poor countries which were in a worse position to meet a smaller loss. Moreover, the attempt of pastoral or agricultural countries, like Canada, Australia, Argentina, and Brazil, to divert their population from the field to the factory, and to produce (at great cost to their consumers and taxpayers) articles which they could have bought, and had been accustomed to buy, far more cheaply abroad, caused not only general impoverishment, but budget deficits and depreciated paper currencies which led in many cases to public bankruptcy and default.

In several British Dominions, as the Balfour Report points out, the tendency to foster local manufactures had undoubtedly been strengthened by the War. A mushroom growth of manufactures had taken place in Canada and in Australia. In India the manufacturers of Bombay and Bengal had gained the support of Congress for a Protective Tariff; and the British India Government had preferred their interests to those of the native States and of the great unrepresented masses engaged in agriculture, who have been sadly impoverished by the increased cost of clothing, tools, and imple-

ments, and by the relative depression in the prices of the food and raw materials which they sell in the home or foreign markets.

Again, in South America, as the Report notes, Brazil had developed industries like textiles and boots, which were soon to prove a complete and costly failure. In Argentina—which has since suffered almost as much as Brazil from this policy—the volume of industrial production was estimated in 1924 at from double to treble the pre-war output. In Chile (which has lately defaulted on its whole public debt) it was stated, ‘in almost every branch of industry attempts are being made, usually with success, to produce in the country goods that have hitherto been imported’.¹ The evil consequences of economic nationalism to British exports of cotton goods and steel are illustrated by definite statistics. ‘The number of cotton spindles in Japan, China, India and Brazil in 1913 was about ten millions; by 1924 the number had risen to nearly eighteen millions. Between 1913 and 1922 the number of cotton power looms in India and Japan rose from 120,000 to 200,000. The annual production of steel just before the War in Japan, China, India and Australia was 360,000 tons. In 1922 it was 858,000 tons.’ Only in Japan was this development legitimate and profitable; for there it was based, not upon the exclusion of cheaper foreign imports, but upon an expansion of their efficient staple industries in foreign markets, at least so far as their textile trades—cotton, silk, and rayon—were concerned.

British manufactures have been excluded from their pre-war markets in the United States, South America, India, the British Self-Governing Dominions, Japan, China, and many European countries by such measures as

1. Customs Tariffs.
2. Restrictions by Prohibitions or Quotas, with or without a system of licensing for imports.
3. Special privileges, concessions, or subsidies to local industries.
4. State control or monopolies, which, in the case of Russia, have put an end to all freedom of trade.

Taking tariffs first, the actual position at the time when the Balfour Report was prepared did not seem to be very much worse than before the War. At least, a careful analysis of the import duties levied in important markets on leading British exports

¹ Balfour Report, p. 10. The ‘success’ has ended in disaster (1933).

indicated that, as between 1914 and 1924, the average increase of import duties per unit of product was only about 80 per cent.—‘a rise not more than sufficient to keep pace with the average rise of price level of the exports’. In other words, the average *ad valorem* incidence of tariffs had not materially increased, and therefore, so argues the Report, ‘taking British trade as a whole, tariff increases since 1913 have not, so far, been an important factor in retarding recovery’, though the Committee saw reason to fear that further increases were probable in the near future. This fear was unfortunately realized in nearly all the important markets for British exports, notably in India and the self-governing Dominions. In 1924 the worst feature was the enormous increase in the tariff of the United States made by the Republican Party after the election of President Harding. This high and almost prohibitive tariff, in conjunction with the colossal War Debt payments from 1921 onwards, undoubtedly inflicted much injury upon international trade and the exchanges by forcing Great Britain, France, and the other Allies to pay their debts to the United States largely in gold. If the Debt Treaties had been concluded on a reasonable basis, goods would have been returned for goods lent, and the increased value of exports from Great Britain to the United States would have greatly exceeded the increased value of American exports to Britain. But, owing to the operation of the American tariff, and to the stipulation that the debts should be repaid (with interest) in gold dollars, the British exports to the United States were only 30 millions higher in 1922 than in 1913, while imports from the United States into Great Britain rose by nearly 70 millions sterling. In 1930, when the American tariff had been raised still higher, the value of British exports was not only less than in 1913, but was actually less than the debt payment. It may be interesting here to give the figures:

British exports to the United States:

- in 1913, £29,294,000;
- in 1923, £59,699,000;
- in 1930, £28,704,000;
- in 1932, £15,000,000.

Imports into Great Britain from the United States:

- in 1913, £141,652,000;
- in 1923, £210,723,000;
- in 1930, £153,496,000;
- in 1932, £83,000,000.

The injury inflicted by the United States tariff on many staple industries in Great Britain and on the Continent eventually provoked retaliation in the shape of tariffs, quotas and exchange restrictions, which were augmented and multiplied towards the end of the period, playing no small part in the collapse of American trade and the vast growth of unemployment in the United States between 1930 and 1933. It must be remembered that the exclusion of foreign goods for the benefit of American manufacturers, without regard to the damage thus done to their best customers, was the declared aim and intention of those who framed and manipulated the tariffs of the United States between 1921 and 1932.¹

Another result brought out by the investigations of the Balfour Committee is that in 1924, as compared with 1914, Empire tariffs had risen more than foreign tariffs:

‘The main increases of tariff rates on British exports have been within the British Empire, where the average *ad valorem* incidence has risen by nearly two-thirds, while in foreign countries, despite the great increase in the United States tariff, the average *ad valorem* incidence has decreased by one-fifth.’

At that time, however, in the opinion of the Balfour Committee, the disadvantage to British trade of the increased tariffs in overseas parts of the Empire had, in several cases, but not in all, been offset by a concurrent increase in the preference accorded to British goods. At the same time, it was observed, ‘the average incidence of Empire tariffs on British goods, even after the rise, is still materially lower than the average incidence of foreign tariffs; i.e. roughly in the proportion of 10 to 17.’

But a few years later, and especially after the slump in prices, which eventually drove Britain and the whole British Empire off the gold standard, tariff barriers all over the world rose enormously; and those of Australia and Canada especially inflicted severe losses on the export trade of Great Britain.

On the whole, if we accept the verdict of the Balfour Report,

¹ There are good precedents for the view that a creditor nation is not entitled to obstruct payment of debts by a debtor nation, and that if it persists in so doing it cannot complain of default. In any case the imposition of prohibitive customs duties on a debtor country's exports is likely to make debt payments impossible. After the war of American Independence this reason was given by Thomas Jefferson, then Secretary of State in Washington's administration, for not enforcing payment of commercial debts due from American to British citizens under the Peace Treaty. See *Life of Jefferson* by F. W. Hirst, Book IV chap. iii.

tariff changes abroad had not, up to 1924, except in a few cases, been an important factor in retarding the recovery of Great Britain's export trade. But, as the Committee went on to observe, 'the same cannot be said of other forms of restriction and obstruction at customs frontiers'. A wide extension had already taken place since pre-war times of prohibitions (or embargoes) and restrictions, 'while the prevalent financial disorganization has led several countries to introduce methods of exchange control which have offered an additional and harassing obstacle to the free flow of trade':

'Our general survey of markets, . . . convinces us that in all ordinary times the system of customs prohibitions subject to licence is far more detrimental to trade than a Customs Tariff, even though the rates of duty are comparatively high. In particular, the licensing system introduces all kinds of delay and uncertainty, which are most harmful to commerce, while it affords a ready means of indirect and unacknowledged preference and discrimination which may go far to render nugatory any provisions of treaty or law for the accord of most-favoured-nation treatment. Moreover, a licensing system offers more opportunity for administrative manipulation than a Customs Tariff.'¹

Over and above these mischiefs, the Versailles Treaty had nearly doubled the number of independent customs areas in central and eastern Europe, and the administration of taxes and restrictions on trade fell into the hands of comparatively new and inexperienced authorities. In the case of Soviet Russia, all foreign trade was monopolized and ordinary commercial intercourse with other nations was ended. But far-reaching effects, to quote the Balfour Committee, 'have also been exerted by the prohibitions, coupled with a licensing system, which have been a predominant feature of the post-war customs régime of Germany, Czecho-Slovakia, Austria, Hungary and Switzerland, to mention no other states'.

Not to multiply illustrations, we may quote as typical a regulation passed by the Latvian Government in 1931, which arbitrarily reduced the quantity of boots and shoes which might be imported annually into Latvia from all countries to half a ton!

¹ See Balfour Committee's Report, p. 16. The Report might have added that, after the War, the Lloyd George-Bonar Law Coalition Government set up a licensing system for the protection of the British Dyes industry, against which British textile manufacturers and other users of dyes have been protesting fruitlessly ever since. In 1932 and 1933 the British 'National' Government introduced quotas on several classes of food imports.

In 1924 some of these quotas and prohibitions were being removed or reduced, though in most cases the change was accompanied by an increase of customs duties, as, for example, in Hungary. But, after the great fall in gold prices and the financial crisis of 1931, customs restrictions, quotas, anti-dumping tariffs, &c., &c., were multiplied and magnified with dire consequences to the overseas trade of all countries. Almost every Government set itself to the hopeless and insane task of increasing its exports—by depreciating its currency, or by bounties and subsidies—and of simultaneously reducing its imports by means of tariffs, or quotas, or exchange restrictions. The fact that every import from one country is necessarily an export from another, and vice versa, was cheerfully ignored. At last, by 1933, this game of beggar-my-neighbour had enormously reduced the volume of international trade and had caused all over the world an unparalleled extension of bankruptcies and unemployment.

Among other measures responsible for heavy losses to Great Britain must be included shipping subsidies, and regulations excluding foreign vessels from coastwise shipping. By these devices, at immense cost, the United States, France, Italy, and other countries have made it almost impossible for the unsubsidized shipowners of Great Britain, in whose ports there is no discrimination against foreign flags, to operate their vessels profitably on many routes, where, in pre-war times, passenger rates and freights were reasonably competitive.

On these untoward developments an observation of the Balfour Report may be cited: 'The intense nationalistic sentiment fostered by the War has led many countries to attach an increased importance, on grounds of national security, to the maintenance under their own flag of a mercantile marine adequate to carry a substantial part of their imports and exports. As in many cases this could only be achieved by artificial support, various devices have been adopted to give preferential treatment to national shipping.' In some cases, as in Australia, the attempt to maintain a national, subsidized mercantile marine has broken down, because the cost was prohibitive and the country was threatened with bankruptcy.

Any one reading the Balfour Report and the evidence given before the Committee by business men and economists might well think that between 1923 and 1925 obstructions to international

trade and other financial and economic mischiefs resulting from the War were beginning to diminish and wear away under the healing influences of time. The depreciated paper currencies were running their course towards a stabilization, which in all cases meant a partial, and in many an almost complete, confiscation of public debt and fixed interest charges. The bitter hatreds and resentments left by the War seemed to be cooling down, and for the time being even the vanquished seemed to be more anxious to regain their economic prosperity than their lost territories. Unhappily the growing burden of Reparations and War Debts, as gold prices fell after 1925, led eventually to a catastrophe more extensive and longer in duration than the slump of 1920, though it was postponed for a time by the readiness of American, British, and Dutch investors to lend enormous sums to the public authorities and industrial concerns of Germany and Central Europe, with the co-operation in some cases of the League of Nations. If German Reparations and War Debts had been drastically reduced between 1923 and 1925, a real recovery (of which there were then hopeful signs) might have developed; and the evolution of a new world civilization, more prosperous and secure than the old—because it would have been based upon peace and disarmament—might gradually have come about in an atmosphere of goodwill.

This was not to be; but the cautiously hopeful outlook of the Balfour Committee after its survey of overseas markets deserves citation as fairly representing the judgement of English business men and financial experts at the beginning of 1925:

‘The adverse forces which still operate in the markets themselves to retard the full recovery of British trade are in the main world-forces, which operate with equal intensity against the trade of other exporting countries.

‘Broadly speaking, and with minor local exceptions which do not appreciably affect the general situation, British trade is not at present suffering from adverse discrimination as compared with that of other exporting countries, but, on the contrary, it enjoys an equal position in all important foreign markets, together with a preferential position in Empire markets.

‘While, however, the main forces with which our trade has to contend are, so far as they arise in the overseas markets themselves, world-forces, their effects are felt with special acuteness by a country like Great Britain which depends so greatly on foreign trade to maintain the employment of its population.

‘Of the forces referred to, some are transitory, like the instability of

exchange, the dearth of capital, the impaired purchasing power and the general financial and economic weakness of our customers, following the great war. The world is still poorer for the waste of war, and years of hard work will be necessary to re-establish its purchasing power. But, given peace and political stability, there is no reason to doubt that recovery will take place. It may also be hoped that such difficulties as arise from unwise measures restricting commercial, maritime or financial intercourse will, in the long run, be mitigated by international agreement, or by national action based on the teachings of experience.'

Returning now to the actual changes in the volume of British overseas trade which are directly or indirectly, wholly or in part, attributable to the Great War, we have to observe that in 1923 some of our important pre-war customers were still in a state of exhaustion. Thus, allowing for the rise in prices, British exports to Germany were, in 1923, only about half (53 per cent.) those of 1913; while exports to Belgium were only 63 per cent. of 1913. For these and equally serious losses in India and Latin America, some compensation had been derived from an enlarged trade with France, the United States, and also with some of the British Colonies, where increased preferences had more than offset increased tariffs.

Apart from the loss of trade with Russia and with the impoverished states of central and south-eastern Europe, which were still shattered and exhausted by the War or strangled by their own depreciated currencies and trade restrictions, the most serious disadvantages and handicaps suffered by British exporters of textile goods and other manufactures were in the Far East and in Latin America, owing largely to the displacement of British staples by the competitive products of Japan and the United States. As regards Latin America, and also to some extent Canada, 'the comparative immunity of American industry from the direct effects of the War'—to quote the Balfour Report—'combined with the enormous financial strength of the United States and the gradual attainment of control over industrial enterprises overseas, gave United States trade a much stronger position than before the War in certain markets, especially those of the American Continent.' This statement is imperfect and inadequate. Though the overseas investments of the United States were important, especially in preventing an earlier breakdown of German Reparations and War Debt payments, the development by American companies of branch establishments and trading concerns in Canada and in Central and

and South America was far more important. For the best part of a century before the outbreak of the War, largely owing to our financial investments in railways, land companies, and mercantile firms, as well as in State and municipal loans of practically all the Republics of South America, Great Britain had acquired a remarkable commercial supremacy in that continent; though it is true that, before the War, thanks partly to the opening of the Panama Canal, American enterprise and capital were beginning to compete in Central America and along the western coast of South America.

Before the War the United States and Germany were both advancing rather more rapidly than Britain in the growing markets of South America; but British manufactures were still far ahead, and our total exports to South America in 1913 were valued at over £49 millions sterling; whereas in 1922, when the pound sterling was much depreciated, the value of our total exports to South America was under £48 millions. In 1913 the value of United States exports to Argentina was only half that of British, but during the War British exports shrank, and American exports went rapidly ahead. After the War British exports recovered; but, except in the boom year of 1920, they never regained anything like their pre-war volume, whereas American exports to South America advanced as follows—I take the figures from the Statistical Abstract of the United States. In the years 1910 to 1914, the annual average of U.S.A. exports to Argentina was only 47 million dollars, and to Brazil 31; for the years 1921 to 1925, the annual average had risen 117 million dollars to Argentina, and 59 million dollars to Brazil. The figures went on advancing until 1929, when they reached 210 million dollars to Argentina, and 198 million dollars to Brazil. It may be added that after the slump of 1930 they shrank (in 1931) in the case of Argentina to 52 million dollars, and in the case of Brazil to 28 million dollars.

There can be no doubt, however, that the growth of United States exports to South America in these years was mainly due to capital investment, which, as usual, took the form of exports. When the slump came, the investors lost most of their money; for bankruptcies and defaults occurred on a large scale in all parts of Central and South America. Thereupon the flow of investment ceased, and the export trade dwindled even more rapidly than it had expanded.

The shrinkage of British trade to South America was less severe. Exports to Argentina declined from a value of £29 millions in 1929 to £25 millions in 1930; and to Brazil from over £13 millions in 1929 to under £8 millions in 1930. It should be added that the general decline of the South American markets for foreign manufactured goods has been aggravated by high tariffs, bad currencies, and revolutionary disturbances, arising in many cases from economic discontent. The competition of synthetic nitrate has helped to wreck the nitrate industry of Chile, which had long been the mainstay of Chilean prosperity. The guano exports of Peru have suffered similarly from the manufacture of artificial manures. Above all, the low prices of cereals, hides, meat, coffee, and other staple products of South America have enormously reduced the purchasing power of that continent since 1929.

When we turn to the Far East, we find an even clearer case of the displacement of British manufactures and the loss of a great trade, largely dependent upon goodwill and established connexions. These were damaged or broken during the four years of War, and Japan was able to obtain a foothold in many markets which her old and highly efficient textile trades have since exploited with rapid and phenomenal success, chiefly at the expense of Great Britain, but also of Holland and other European competitors.

In the introduction to the Balfour Report, the menace of Japanese competition received little attention. After discussing the displacement of British exports by the manufactures of other countries, and referring to the growing competition of Italy in certain classes of textiles, the Report adds: 'though Japan has hardly maintained its relative position as an international competitor, it is still formidable in certain markets.' On a later page of the Report (p. 405) it is observed that the Japanese nation enjoyed striking prosperity during the years of the War—in which, though it joined the Allies, it took practically no part. But undue stress is laid on the growing excess of Japanese imports over exports between 1919 and 1923. 'There is no doubt', we are told (on p. 402), 'as to the stagnant condition of the export trade during the last three or four years. . . . Prices are still high in Japan, and despite some exceptions industrial efficiency is on the average lower than in some competing countries.' It is admitted that Japanese exports to China, India, the Dutch East Indies, and several other countries increased greatly

between 1913 and 1919; but later statistics are given to show that high-water mark had been reached. The set-back in China was attributed to disturbances in that country, but as regards India, it is said: 'Now that British goods are again available at competitive prices, Indian buyers are reverting to their old sources of supply.'¹ In this diagnosis, the experts employed by the Balfour Committee have proved very far from the mark. To show how far, I will take the greatest of all British export trades—that of cotton yarn and piece goods—of which, before the War, India was the principal market, and was indeed practically monopolized by Lancashire under conditions of free competition. Taking cotton piece goods, the following table is sufficiently eloquent as to the displacement of British by Japanese manufactures:

(000,000's omitted)

	Average 1909-13	1924	1931
	linear yds.	sq. yds.	sq. yds.
United Kingdom:			
Total exports . . .	6,483	4,444	1,716
To India . . .	2,508	1,642	390
Japan: ²		linearyds.	
Total exports . . .	156	960	1,414
To India . . .	3.5	143	404

The textile ability and adaptability of the Japanese population can hardly be exaggerated. They have been skilled hand-loom weavers and cultivators of silk for many centuries, and in the last fifty years they have taken to machinery, and to the spinning and weaving of cotton, woollen, and rayon as readily as ducks take to water. The woollen and worsted developments have come rather late, and it is only since the War that British exports of worsteds and woollens to Japan have shrunk to the dimensions of a luxury trade, as in the case of our exports to the United States. The first woollen factory in Japan was established in 1877. In 1911 the total output of Japanese woollens was valued at only 22 million

¹ Page 426. The Report adds that Japanese products are mainly suitable for the bazaar trade, though in cotton goods Japan's share of the import trade had increased from 0.3 per cent. in 1913 to 7 per cent. in 1923, while the share of Great Britain declined from 97 to 86 per cent.

² On the average of the years 1910-13 goods returned in linear yards in Japan represented 75 per cent. of the value of all cotton piece goods exported. For 1924 the corresponding percentage was 90.

yen. After the War, in 1921, it had risen to 163 million yen; but even in 1923 Japan was still the best market for British woollens. Many other Japanese trades, including hosiery, shipbuilding, chemicals, paper, and rubber manufactures received a great stimulus from the War; and though they suffered in the slump, the total volume of Japan's manufactured exports has grown enormously.

British exports to Japan were valued at 14,530,000 gold pounds sterling in 1913, and after sinking to 5,521,000 paper pounds sterling in 1917, they recovered to the satisfactory figure of 26,318,000 paper pounds in 1923. After Britain's return to the gold standard, the value sank rapidly. In 1926 it was only £13,904,000, and in 1930, £8,228,000. In that year, the wholesale price-level was about the same as in 1913, so that the fall from £14 to £8 millions sterling represents an equivalent decline in volume.

British imports from Japan were valued at £4,387,000 in 1913. In 1918 they had risen (in paper pounds) to £23,872,000. In 1930 they were valued at £7,819,000.

On the whole it must be said that the industrial advance of Japan was much accelerated by the War, which cost her practically nothing, and gave her a comparative advantage over her chief competitors. The profits accumulated during the War were largely invested in new machinery; and in spite of severe set-backs during the slump of 1920-1, and afterwards as a result of the earthquake in 1923 and of the American crisis of 1930 (which brought temporary ruin on the Japanese silk-growers), the Japanese export trade during 1932-3 was in a flourishing condition, and unemployment was reduced to very small proportions at a time when it had become a grave social menace in all the other industrial countries of the world. It must be added, however, that the manufacturing prosperity of Japan in 1932 was in part illusory. No doubt but for the efficiency, technical skill, and docility of the Japanese working classes, it could not have occurred in face of the Chinese boycott and the rising tariffs of India and other countries, of which, as a protectionist nation, the Japanese cannot well complain. But another cause of the activity of Japan's export trades in 1932 was the depreciation of the yen. This gave them a powerful but dangerous and transitory stimulus, which cannot be repeated or maintained.

With this inquiry into the loss of British markets in South America and the Far East since the War our chapter may conclude. It has not been easy to disentangle the transitory from the more permanent effects of the War, or its direct from its indirect consequences. Probably of all its results the most important for Great Britain in the field of commerce has been the growth of protectionist feeling, ending with the adoption in 1932, for the first time since the days of Peel and Gladstone, of a general protective and differential tariff. How this came about, starting with the McKenna Duties during the War, followed by embargoes, key industry duties, and safeguarding duties after the War, has been explained previously. Its results have been an enormous reduction in the volume of imports and re-exports and in the profits of British Shipping.

APPENDIX I

TOTAL VALUE OF THE IMPORTS, EXPORTS, AND RE-EXPORTS OF THE UNITED KINGDOM,¹ TOGETHER WITH THE INDEX NUMBER OF WHOLESALE PRICES FOR THE YEARS 1913 TO 1932
(Values in Millions Sterling)

Year	Total Imports	Total Exports	Total Re-exports	Index Number ²
	£	£	£	
1913	768	634	109	100
1914	696	526	95	
1915	851	483	99	127
1916	948	603	97	159
1917	1,064	596	69	206
1918	1,316	532	30	226
1919	1,626	963	164	241
1920	1,932	1,557	222	295
1921	1,085	810	106	197
1922	1,003	823	103	158
1923	1,096	885	118	158
1924	1,277	940	139	166
1925	1,320	927	154	159
1926	1,241	778	125	148
1927	1,218	832	122	141
1928	1,195	843	120	140
1929	1,220	839	109	136
1930	1,043	657	86	119
1931	861	454	63	104
1932	703	416	50	101

¹ Exclusive of Gold and Silver Bullion and Coin.

² Owing to the discontinuity of the *Economist* Index Number, which has not

APPENDIX II

My friend the late Mr. J. B. Clark, head of a large boot and shoe factory in Street, Somerset, sent me (early in 1933) the following note on the experiences of his firm since the War:

‘From an outside point of view, the alteration of the ratio between Home and Export Trade is a striking feature. In 1913 57 per cent. of the value of goods dispatched was for Home trade and 43 per cent. for the Export. In 1932, the proportions were 93 per cent. and 7 per cent.

In 1932, the value of goods invoiced to the Home market was more than three times as great as it was in 1913, and the value of goods invoiced to the Export market in 1932 was less than a third of what it was in 1913.

The totals both for 1932 and 1931 show a heavy falling off from the years immediately preceding, both in the Home and Export, but more especially in Export. Ever since the War, however, the proportion of Export, while not so low as in 1932, has been much lower than pre-war.

Exact comparison in volume is not possible, as footwear invoiced at one period is never identical with that of another, but the value of identical footwear would be very much larger in 1932 than in 1913, probably at least 50 per cent. higher—perhaps more.

For comparisons, we treat the Irish Free State and the Channel Islands as part of the Home Market, although for Government Returns, the Channel Islands have always been treated as Export and of late years the Irish Free State.

Our Export trade has always been principally—though not entirely—with our own Dominions. Their policy of Protection has absolutely shut us out of Australia; it is rapidly going the same way in South Africa, and the only one with which we have done any business of importance of recent years is New Zealand. We have some hope there for the future, though at present things are so bad, and the Exchange presents such an obstacle, that there is little to be done. We base no expectations whatever on the Ottawa business helping us.

The question of Overheads is an interesting one. For the two or three years before the War, what we call our Burden Overheads averaged about 8 per cent. to $9\frac{1}{2}$ per cent. on the selling value of the goods. During recent years, the percentage is 12 per cent. to 15 per cent., and I think the figures are fairly comparable.

Among the items accounting for the increase are: the increased amount of Health Insurance, fresh items for Unemployment Insurance, and our contribution to the Holiday Levy. There are many other things as well.

been kept on the old basis, and to the fact that the Board of Trade Index Number of Wholesale Prices, which takes the year 1913 as equivalent to 100, only starts from 1920, I have, in this table, used the *Economist* Index Number, taking 1913 as 100 for the years 1915 to 1920; and for the years 1921 onwards I have taken the Board of Trade Index Number. I may add that the Board of Trade figure for 1920 is 307.

The whole tendency of the business seems to be to provide more trimmings as it were, and to do things in an expensive way. . . . My impression is that this question of increased Overheads is affecting business right through, both manufacturing and retail. For instance, in retail shops, a much more elaborate equipment is provided now to attract the public, and all sorts of services that were not thought necessary before. This, I think, accounts for the fact that the relations between present-day and pre-war prices of raw materials seems so disproportionate.

The question of the real bearing of the Cost of Living percentages is interesting. I am inclined to think that what people practically have to spend to-day stands in a much higher percentage to pre-war than the bare Cost of Living figure would indicate. This perhaps may not be of necessity, but because the standards are so different to-day, everybody expecting as a matter of course to have things, and look upon them almost as necessities, which were not had before the War.'

CHAPTER II

EMPLOYMENT AND UNEMPLOYMENT, 1914-33

IN the period just before the War, trade and employment in the United Kingdom were extremely good. In the year 1913 only 2·1 per cent. of the workers were unemployed, representing approximately 250,000 persons, which was less than one-tenth of the percentage and number unemployed in the year 1932. This shows how baseless are the assertions of those who, like the technocrats, would have us believe that improved machinery¹ is a major cause of post-war unemployment, or of those who (like the Protectionists) assert that Free Trade is the culprit.

Comprehensive statistics showing the actual *number* of persons registered as unemployed are available from 1922 onwards, after the system of unemployment insurance had been extended so as to cover its present wide scope. But previous to that, trustworthy figures showing the *percentage* of workers unemployed had been compiled for a long series of years from returns made by some of the larger trade unions. According to these figures, the highest percentage of unemployment in the present century was 7·8 in the year 1908, when there was a world-wide depression of trade; and the average figure for the fourteen years, 1900-14 was 4·4 per cent., representing approximately 500,000 unemployed.

During the War years even the low record of 1913 (2·1 per cent.) was surpassed. It is true that the outbreak of the War was accompanied by general dislocation of business; and at first it seemed likely to cause widespread unemployment, especially in our export trades, owing to the complete cutting off of our commerce with Germany and Austria, and the partial interruption of many trade routes, including the North Sea and the Baltic. For several weeks this was so, but the early victories of the Germans in Belgium and France led to the enrolment in Britain of a vast voluntary army, and necessitated an ever-increasing output of munitions of war.

In 1914 the percentage unemployed averaged 3·3; but after that,

¹ Probably there were more improvements of industrial machinery between 1903 and 1913 than between 1923 and 1933.

it fell below one per cent. The following were the figures for the next six years:

Year	Percentage unemployed
1915	1.1
1916	0.4
1917	0.7
1918	0.8
1919	2.4
1920	2.4

An acute shortage of labour was felt during and immediately after the War; and so except, as we have seen, at the very beginning there was practically no unemployment. After conscription was introduced every man between the ages of 18 and 41, unless he was registered as engaged in work of national importance, had to join one of the fighting services. For women, and for those men who were fortunate enough to escape military service, there was ample employment at high wages in town and country. For the greater part of the first two years after the War employment remained plentiful, thanks to the feverish post-war boom, which was assisted by lavish Government expenditure, inflation, and borrowing. The movement for higher wages, begun in 1915, continued along with rising prices until 1920—indeed, the net increase of wages in 1920 was the highest ever recorded. In April of that year there were actually less than 1 per cent. unemployed. The small amount of unemployment that did exist in 1919 and the first three-quarters of 1920 occurred for the most part among persons who were unemployed for only a very short period; and in some industries and some districts there was still a real shortage of labour.

However good employment may be, there must always be some persons who would be recorded on any given day as unemployed, because they happen to be changing from one post to another. This fact was well exemplified in 1919, when demobilization of the army was proceeding; and the 2.4 per cent. registered as unemployed in that year consisted largely of men who had just been demobilized and were for a few weeks unoccupied before entering industrial employment. In addition to these temporarily unoccupied men, there was an increase in the number of unemployed women, owing to the gradual displacement of war-time female labour.

Towards the close of the year 1920 these conditions came to an abrupt end, and Great Britain witnessed a collapse of trade

accompanied by a rapid decline of employment. This change began in the last three months of the year. In December 6 per cent. of the workers were unemployed. By March 1921 their numbers had risen above 10 per cent. The increase of unemployment, due to the general decline of trade, was aggravated by the national coal strike, which lasted from April to June; in the latter month over 20 per cent. were unemployed, representing approximately 2,300,000 persons, the largest number ever known up to that time. After the ending of the strike unemployment declined to 15 per cent. in September, but rose to 16 per cent. in December, where it remained with slight variations until May 1922. During this period the industries in which the largest proportion of unemployment occurred (apart from coal) were engineering and the metal trades, building, shipbuilding, and transport.

After May 1922, there was some recovery from the trade depression, and unemployment was reduced below 14 per cent. before the end of the year. From 1923 to 1929, unemployment remained remarkably steady at a little over a million—about double the pre-war average. The percentages of unemployed workers in the insured trades during these seven years were:

Year	Average percentage of unemployed		
1923 . . .	11.7		
1924 . . .	10.3		
1925 . . .	11.3		
1926 . . .	12.5		
1927 . . .	9.7		
1928 . . .	10.8		
1929 . . .	10.4		

As will be seen from the above table, there was a slight, but uneven, improvement over this period. In 1924 employment was benefited by a temporary and extraneous factor. In that year the French occupied the Ruhr, and the reduced coal output in that area enabled British trade to expand in several directions, particularly in the coal industry itself. In 1926, however, a severe set-back was caused by the General Strike, which lasted for nine days during May, and far more by a disastrous coal dispute which began on May 1st and dragged on until nearly the end of the year.

The year 1927 saw some recovery, and until 1930 trade remained comparatively good for the post-war period. The apparent set-back in 1928 possesses little significance. During the first three

months of this year the figures were slightly better than those for 1927 or for any year since 1920; but from April onwards they were affected by the Unemployment Insurance Act, 1927, which altered the conditions of obtaining benefit and permitted the continuance in benefit (and therefore in the recorded unemployment totals) of many who would previously have been excluded.

In the winter of 1929-30 a world-wide trade depression began. The Wall Street crash, the cessation of American lending to Europe (which in turn caused the effects of huge inter-governmental reparation and debt payments to be fully realized), and sharp increases in the tariffs of many countries led to a shrinkage of international trade, a lowering of gold prices, and an almost universal decline of industry and employment. Unemployment in Britain rose from 16.1 per cent. as the average figure in the year 1930, to 21.3 per cent. in 1931 and 22.1 per cent. in 1932. In 1931 the 'economic blizzard' swept over Europe. Financial crises in Austria and Germany helped to drive Britain off the gold standard. The extravagant expenditure of the Labour Government had caused general alarm, and the burden of taxation was becoming increasingly severe as the national income diminished. In addition our export trade was severely crippled by the adoption in many countries of import quotas and currency restrictions. In 1932 Great Britain became a protectionist country; but this only served to deepen the general trade depression, and unemployment became worse than ever. The number of persons (insured and uninsured) who were registered as unemployed in December 1931 was 2,574,000; in December 1932 it was 2,796,000.

The trades in which unemployment was worst during the 1931-2 slump were the same as those which suffered most in 1921, namely engineering, shipbuilding, mining, the metal industries, transport, and building. These and other industries in which post-war unemployment has been rife fall for the most part into two classes; (*a*) industries which underwent abnormal expansion during, and on account of, the War, and (*b*) industries which are dependent upon a reasonable degree of freedom in international trade. Throughout the post-war period, the distribution of unemployment in the various districts of Great Britain has been uneven and has varied in accordance with the geographical distribution of the industries most affected. Thus employment in London and the South has

been better than in the North of England and in Scotland, and in Wales it has been worst of all owing to its dependence on coal, iron, and shipping.

As the development of conscription¹ and modern militarism with its scientifically ruthless machinery did not, even in the Great War, convert women into combatants, those who could be spared from their homes took, so far as physical strength permitted, the places of the men who had to go to the front. On the farms the milkmaid was revived, and 'land girls' engaged in agricultural work. But it was in the munition factories and in city occupations, including all forms of clerical work, that the displacement, or replacement, of men by women was on the largest scale. Unfortunately for public economy and the prospects of the next generation, those who remained at home, whether men or women, were allowed to 'profiteer' either as employers or employed. Instead of paying the munition workers, who were not risking their lives, or running the even worse danger of permanent incapacity from wounds or disease, a wage (allowing for maintenance) equivalent to that of the soldiers, extravagant rates, rising rapidly as the War went on, were paid to munition workers of both sexes, even though most of the work was not highly skilled.

It was when Mr. Winston Churchill became Minister of Munitions under Mr. Lloyd George that the heyday of prosperity arrived for 'the Flappers', as the girls who worked in the aircraft and munition factories were popularly called. Girls who, in peace time, would have thought themselves lucky to earn a pound a week, often earned five pounds, and munition workers became as extravagant as the miners of South Wales, who at one time could earn fifteen or twenty pounds a week.

At the end of January 1919, a representative of the *Sunday Times* visited the shop of a pawnbroker, who, to judge from the reflections he inspired, must have been something of a philosopher, as well as a good observer. In the early part of the War he lost most of his clientele. His old customers were earning more money than ever before, and his business fell off. Then a new class furtively approached his pledge counter. As the War went on, so he told

¹ The Military Service Act establishing conscription for the first time in the history of England was passed in January 1916 and extended by a second Act in May of the same year. See page 87 sqq.

his interviewer, 'hundreds of middle class people, to whom the mere thought of pawning carries with it the stigma of shame, have had to choose between pride, sacrifice and starvation. Clandestine visits to the pledge counter became inevitable, grew in their frequency, and still continue.' In this way the jewellery and household goods of middle-class families passed into the pawnbroker's hands. He had distressing stories to tell of women who had almost to sell the clothes from off their backs to provide for their little ones while their husbands were at the War. Meanwhile, the munition workers had been buying jewels, furs, feathers, and finery.

But in January 1919 the day of the flappers was passing. Very few of them had saved money, and some of them were already reappearing at the pawnbroker's. Here are some of the observations noted down by the representative of the *Sunday Times*:

'But the presence in the establishment of a number of fur coats, a typewriter or two, and a piano, all duly ticketed, showed that the type of person who is wont to regard the pawnbroker as "the broken man's banker" is already disposing of luxuries foolishly acquired in days of high earnings.

'The owner of the piano was seen in her home, one of a row of dingy brick boxes, gaudily bedecked within with all manner of tawdry ornaments. She was a voluble lady, the wife of a labourer who had been "in munitions" and the mother of two stalwart daughters who had been similarly employed.

'With a ring of pride in her voice she explained how she had managed to "get through" the £14 odd that had been coming into the house each week. She seemed rather ashamed of the fact that she had not been able to spend it all on eatables and pleasures, and that she had to "invest" in various articles of furniture in order to get rid of it.

' "The girls", she remarked, "decked themselves out fine from top to toe, like regular ladies. Everything they wanted they got, and they didn't mind what they paid for it, neither."

The moral effect of this new kind of life, with its luxurious expenditure on pleasure and release from conventional restraint, while the men were in the trenches and the tale of killed and wounded was piling up at the rate of thousands or tens of thousands a week, can easily be imagined and need not be described. When the new incomes came to an end, the expenditure and standards of living had to fall, but the taste for pleasures and the new habits of liberty or licence remained; and when the survivors of the War were gradually released from service, they found, after the first outburst of 'mafficking', that the conduct and outlook of the women,

especially among the working classes, was very different from what it had been before the outbreak of the War.

How far the spread of unemployment among men and the difficulty of getting back to old occupations were due to trade depression, how far to the fact that the War had made most of them less capable and competent, physically or mentally, than before, and how far it was due to the fact that work previously allotted to men had been taken over successfully by women, whose labour was found to be cheaper or more efficient, cannot be estimated with any accuracy. All three factors were certainly present in varying force in different occupations. By degrees men replaced women in trades and callings for which they were really better fitted. But fourteen years after the War ended, in November 1932, the number of women earning wages and salaries was certainly much greater than it had been before the War. In several occupations which had been the monopoly of men, or in which women workers had been comparatively few, they were now firmly established. In banks and city firms, and indeed in all business establishments, the shorthand-typist clerk or secretary was now almost invariably a woman. Probably this change would have come about without the War; but the War precipitated it. Moreover, the increasing pressure of taxation and losses of income, especially among men of the middle classes, often made it urgent for girls, who had previously stayed at home, to go out and earn a livelihood, and thus contribute to the family earnings. Thus, to a certain extent, the increasing employment of women has compensated for the decreasing employment of men, though depression of trade in the textile and various other industries has affected men and women simultaneously and more or less equally.

An examination of the Ministry of Labour Gazette, which gave employment and unemployed statistics for all insured trades at the end of November 1932, dispels the notion that the increased employment of women has remained a large factor in male unemployment. For example, in the industries to which most of the unemployed men belonged at that time, the number of women engaged was very small indeed. The following table shows the position in a group of six trades where women's labour hardly counts. Yet these alone supplied nearly half the total of all the insured male workers who were registered as unemployed:

Trade	No. Insured		No. Unemployed	
	Men	Women	Men	Women
Coal-mining	1,039,840	5,080	355,338	1,182
Iron and Steel	163,640	4,120	78,746	489
Shipbuilding	179,120	2,810	114,178	621
Building and Contracting	1,135,980	11,300	391,805	525
Gas, Water, and Electricity	166,940	7,270	19,590	249
Transport	840,250	33,810	207,855	3,283
Total	3,525,770	64,390	1,167,512	6,349

In various smaller industries, such as quarrying, marine engineering, pig iron, &c., the number of women employed was very small indeed. In two leading industries—general engineering and motors—women played a rather more important role. In General Engineering, out of about half a million insured men, 160,000 were unemployed, and out of 43,000 insured women, 5,000 were unemployed. In the motor trades there were about 226,000 men and 25,000 women insured, of whom 44,000 men and 2,000 women were unemployed.

In another group of insured people—those employed by the National Government and by local authorities—there were 417,000 men, of whom 81,000 were unemployed, and 44,000 women, of whom about 2,800 were unemployed.

In all these trades and occupations, where the proportion of women is small, it is obvious that the number of men displaced by women cannot have been large in comparison with the mass of unemployment. There remain the textile, hosiery, tailoring and dressmaking trades, where women workers have always been more numerous than men, the hotels and laundries, where women also predominate, and the distributive trades, including shop-girls. This last class of insured workers consisted, at the date of this return, of 1,201,000 men and 748,000 women, of whom 183,000 men and 63,000 women were unemployed. It is noticeable that in most cases the percentage of men unemployed in proportion to their numbers is greater than the percentage of women; and this certainly suggests—what is in itself probable—that in times of severe trade depression employers, in their efforts to economize, dispense with more men than women, because women's labour is, or seems to be, cheaper.

A friend of mine—an expert statistician—who has made a study

of the unemployed problem since the War and is familiar with the changes in the law, which make comparisons difficult, feels certain that in the distributive trades far more women are employed than before the War. In this case, he thinks, possibly half the men now unemployed have been displaced. Other trades which have been subjected to an invasion of women workers are boots and shoes, printing, publishing and book-binding, commerce, banking and insurance, baking, &c., &c. In this group there were 771,000 insured men, of whom 112,000 were unemployed, and 391,000 women, of whom 36,000 were unemployed.

It would be a fallacy to assume that a wholesale dismissal of women would give a corresponding increase in the number of employed men. A vast number of typists, shop assistants, waitresses, &c., are quite young girls, who are employed, often for a short time, at low wages. A large proportion of them marry, and their ranks are constantly being recruited from girls who have just left school. The work they do is not suitable for men as a rule, and the country would be worse, instead of better, off if they lost their jobs.

On a general survey of the total number of insured men who were unemployed in November 1932, numbering 2,395,000, the proportion displaced by women workers was probably not more than one-eighth. In other words, if all the post-war women workers could be removed from industry, posts *might* become available for about 300,000 of the unemployed men; but as this displacement has occurred for ordinary economic reasons, because female labour is more efficient or cheaper than male, and as the earnings of girls and women (including widows) are presumably just as useful and necessary to society as the earnings of boys or men, there seems to be no reason for thinking that this change of economic and social conditions should be entered as one of the altogether evil consequences of the Great War. At the same time, it may be admitted that it would, on the whole, be better for society if more young men were able to afford marriage. In that case a certain number of the younger women would be relieved of the necessity for doing work which probably in a fair number of cases might well revert to men. But the great evil for which the War has been responsible is the general depression of trade, and the general extension of unemployment. That this should fall more heavily upon men than upon women in a great industrial and commercial country like Great Britain is,

under the circumstances, inevitable. About the demoralizing effects of unemployment there is no dispute. The unemployed dole is better than beggary or the workhouse, but it is no substitute for work.

In a discussion of women's work and wages during the War,¹ Professor Bowley has shown from official statistics that the total number of women and girls working in industry rose between July 1914 and July 1918 from 2,179,000 to 2,971,000. Those engaged in commerce rose from 505,000 to 934,000; in National and Local Government, including Education, from 262,000 to 460,000; in agriculture from 190,000 to 228,000; in hotels, theatres, &c., from 181,000 to 220,000; and in transport from 18,000 to 117,000. On the other hand, the number of women in domestic service declined from 1,658,000 to 1,258,000 between the two dates. The greatest changes were in the metal and chemical industries and in Government establishments. In the metal industries, the increase was from 170,000 to 594,000, and in these the direct replacement of men or boys by women was estimated at 195,000. In the textile and clothing industries the number of women employed actually declined; but in the Government establishments their number rose from 2,000 to 225,000, and the number of men displaced was estimated at 197,000.

Rates of wages in the national factories and controlled establishments for female munition workers were raised rapidly. The minimum weekly wages, fixed at 20s. for fifty-three hours in February 1916, were raised by stages to 30s. for forty-eight hours (or less) in December 1917, and (for some unexplained reason) to 40s. for forty-seven hours in January 1919—after the Armistice. But average earnings were, of course, higher than minimum rates, though the minimum rate for women on men's work in January 1919 was about three times the general average for women's wages before the War. For women on women's work, e.g. in cotton and wool manufactures, most wages were rather more than doubled. After examining statistics furnished by other industries, Professor Bowley concludes that at the end of 1918 women's weekly rates of wages had rather more than doubled (in money) as compared with the pre-war level, while their earnings—thanks to overtime, temporary bonuses, &c.—had increased a good deal more. By the

¹ *Prices and Wages in the United Kingdom, 1914-20*, by Arthur L. Bowley, Oxford, Clarendon Press, chapter xv.

summer of 1920, he adds, 'the excess of earnings above rates had tended to disappear, and weekly rates were $2\frac{1}{2}$ times those before the War'.

To what extent a female textile worker was better off at the end of the War than at the beginning depends, of course, upon the question how far the rise of retail prices reduced her purchasing power; but there is no doubt that in most parts of the country women could afford to spend a great deal more upon amusements, and in most cases the working day was shorter.

After 1918, as Professor Bowley has pointed out in a later book,¹ many of the older women who had served during the War in factories or in hospitals gave up work completely; and most of the young women who had been employed on the land or in the munition factories found other work or married, or rejoined their husbands who returned from the front. On examining the position in the light of the census of 1921, after the long demobilization was over, we find that the proportion of females occupied was rather smaller than before the War—being for all females over fourteen years 33·7 per cent. in 1921 as against 35·7 per cent. in 1911, the year of the previous census. But the decline was among married women and widows;² among single women the percentage 'occupied' increased in most of the age groups above 16 and under 65, rising on the whole from 71·6 to 73·4 per cent. The following table for England and Wales shows the total number of women and girls occupied in various callings in 1911 and 1921, and the changes may be taken as indicating the influence of the War:

	1911	1921
	(000's)	(000's)
Personal and Domestic Service	1,864	1,507
Industry (other than clothing) and Transport .	1,353	1,665
Clothing	703	503
Shops	316	432
Banking, Insurance, &c.	148	310
Professions, Theatre, &c.	371	454
Government Service	76	194
Total	4,831	5,065

¹ *Some Economic Consequences of the Great War*, in the Home University Library, London, 1930.

² In 1921 there was an appalling number of 'war widows', with pensions. It should be remembered also that 1921 was a year of general and acute unemployment.

In the above table there can be no doubt that a large part of the increase is due to the additional clerical work undertaken by women. The decline in domestic and personal service of over 350,000 is attributable mainly to the diminished incomes of the wealthy classes, who were suffering in 1921, and have suffered ever since, from the high and steeply graduated income-tax, which has deprived millionaires roughly of half their income. But the War had also changed women's whole outlook on life. A distaste for domestic service came with a new love of independence. There was perhaps for a time less eagerness, as well as less opportunity, for marriage. The post-war generation was more addicted to pleasure and more impatient of domestic servitude. A household servant as compared with a waitress or a shop-girl or a clerk may have less tiring work, but she has far less free time at her disposal. These changes in the female character and outlook may be exaggerated. Women are doubtless a little more interested in politics since they secured the vote. They are more comfortably dressed; they take more exercise and are more addicted to games. Higher education has given them more scope for brain-work; but for the most part they still prefer their privileges to equality.

Comparing the insured women workers of 1921 with 1932 we find that there has been comparatively little change in the main industrial occupations. For instance the number employed in metals, machinery, &c., only fell from 229,000 to 228,000, while textile workers only fell from 782,000 to 776,000. Of course the growth of population means the growth of unemployment, where the numbers employed have remained the same. It is impossible, I think, to say whether there are more or less women employed in clerical and secretarial occupations now than there were in 1921, though it is certain that there are far more than there were in 1911. But the movements of women's employment after, say, 1923 cannot be strictly related to the War. Since then unemployment among both sexes has been governed mainly by the depression of world trade and by the consequences of war debts, tariffs, quotas, and exchange restrictions, which however are all directly or indirectly traceable to the War.

Fourteen years after the end of the War (towards the close of 1932) unemployment and distress all over the world were more widespread and visible than at any time since the post-war slump of

1921. In the United States and in many neutral countries conditions were even worse than then.¹ Various explanations have been offered. Among others, the technocrats have referred both the glut of many commodities and the unemployment of the agricultural and industrial population, especially in the United States, to the substitution of mechanical and automatic machinery for hand-work. One bricklayer, one weaver, one spinner, &c., &c., can do the work of, say, a hundred, one hundred years ago, of fifty, fifty years ago, or of ten, ten years ago. Their figures have been challenged and mine are fanciful; but, if this explanation were correct, why should American industry with all its automatic machinery have been booming from 1923 to 1929? Surely a much truer explanation is the difficulty or impossibility of exchanging national surpluses of food, commodities, and manufactured articles, owing to the rapid development of tariffs, quotas, and exchange restrictions, especially after 1929.

Another thing to be remembered is that the dislocation of currencies caused by the War and the maldistribution of gold due to War Debts have upset and deranged the relations between prices and wages. This indeed has been a great factor, especially during the rapid depreciation of most paper currencies immediately after the War, and the rapid appreciation of gold standard currencies from 1925 onwards, and especially from 1929 to 1933. The stickiness of wages in countries where prices were rising has given a stimulus and premium to exports, and has induced countries with a stable or appreciating currency to impose anti-dumping duties in addition to their tariffs, or quotas, or exchange restrictions. Then again, as Lord Gladstone pointed out to me in a letter from Hawarden (North Wales), 'manufacturers are exploring every channel to economise, failing any reduction in wages, by the substitution of new and more automatic machinery. The Steel Works here are a case in point, only the equivalent of about 50 per cent. of the full number of men are now being employed, the work being spread over as many hands as possible. A new branch of metal sheets, mostly for the motor-car industry, started under American tuition, is doing well, expanding rapidly; but this section employs few hands compared with the previous output of heavy stuff and the larger number of hands. I have heard it stated that the employers, who had 6,000 men at work a few years ago, are saying that with improvements in machinery they will never

¹ Cf. Bowley, pp. 210-19.

employ anything like this number of men again. Their business is mostly production of galvanized iron sheets, almost a speciality and long an exceptionally prosperous trade, principally for export. I suppose this sort of thing may be going on elsewhere.'

Lord Gladstone added that in these islands we are too crowded, 'and there is no longer the same spirit of enterprise, I fear, that has existed in the past. Partly owing to general depressed world conditions, young people—instead of taking risks and going abroad anywhere they can—prefer to stick at home and draw the dole.'

At the same time, besides lack of enterprise (seen for example in the reduced competition for the Indian Civil Service, though not for the African), it must be added that, since the War, openings in the Colonies and foreign countries, such as South America and China, have been much scarcer and less attractive. In fact thousands, and probably tens of thousands, of Englishmen have been forced to return home (through losing their jobs or becoming bankrupt) from the tea and rubber plantations in Malaya, India, and Ceylon, or from tin and copper mines, or from the colonial farms, or from various positions in bankrupt, or semi-bankrupt, States of Central and South America. The depression in Canada, Australia, Malaya, and British India has been even worse than at home, and British shipping has never, in modern times, undergone such disastrous experiences—witness the Royal Mail, the P. & O., the Orient Line, the Cunard, and dozens of other once prosperous shipping companies and firms which have had to reduce or suspend dividends.

CHAPTER III

LOSSES IN KILLED AND WOUNDED

It has been stated by a competent authority: ‘If all the losses of the hundred years which lie between the Napoleonic Wars and the World War of 1914–18 are counted, the result will prove a fraction only of the number of deaths during the World War’.¹ The following estimates broadly represent the total losses of all the belligerent powers during the years 1914–18:²

Actually known dead	.	.	.	.	10,004,771
Presumed dead	.	.	.	.	2,991,800
					12,996,571
Severely wounded	.	.	.	.	20,297,570
Total casualties	.	.	.	.	33,294,141

This appalling loss of life and limb was due to the enormous numbers of men mobilized for fighting, and to the invention of far more deadly weapons of destruction than had ever been employed before. For the first time in the history of the world, men in aeroplanes and Zeppelins fought each other in the air, or bombed towns—sometimes in the hope of terrifying the enemy, sometimes by way of reprisal. The horrors of land warfare were increased by the invention of poison gas, and naval warfare was revolutionized by the submarine.

As to the relative numbers of killed and wounded, Mr. Bogart remarks: ‘The total number of killed compares with the total number of wounded in the ratio of about 10 to 22—a proportion which shows that in this respect, too, the Great World War has resulted in a larger loss of life than any previously recorded war.’³

On the other hand, owing to the progress of hygiene and medical research, epidemics and disease generally were responsible for a smaller proportion of the total number of deaths. In *Le Drapeau Bleu* (December 13th, 1919) the aggregate losses of the combatants

¹ Professor Harald Westergaard in his Preface to *Losses of Life caused by War*, Part I, by Samuel Dumas, in this Series, 1923. Mr. E. L. Bogart, in his book *Direct and Indirect Costs of the Great World War*, Clarendon Press, Oxford, 1920, estimates the total losses of men in all the nineteenth-century wars to be about half those of the Great War.

² *Direct and Indirect Costs of the Great World War*, p. 274.

³ *Loc. cit.*, p. 273.

were estimated at just over eleven millions, of whom eight millions were killed and three millions died from disease.

A table on the next page, taken from Hansard's Parliamentary Debates, May 5th, 1921, supplies official statistics of enlistments, deaths, and numbers wounded, for Great Britain and the British Empire.

Other estimates of the numbers killed and wounded were made by the *Round Table* for June, 1919, and by Mr. E. L. Bogart in the volume of this Series already quoted. They correspond fairly closely with those of Hansard.

I am indebted for information collected by Dr. Dearle from various sources regarding the enlistments and deaths in the Services of the United Kingdom. The total number of men who served in the Army (regular soldiers, reserves, &c., called up, and those who enlisted) was 5,545,727. Of these 673,385, or about 12 per cent., perished. In the Navy, the total of regular sailors and enlistments was 490,000, and the number of deaths was 28,000, or over $5\frac{1}{2}$ per cent.

British losses were less in proportion to population than those of France, Germany, and Austria, but greater than those of Italy. Figures for these Powers are given by Mr. K. O. Vedel-Petersen, in *Losses of Life caused by War* (Part II), as follows:

DEATHS OF COMBATANTS IN THE WAR

France	.	.	.	.	.	.	about 1,300,000
Germany	.	.	.	.	.	.	„ 2,300,000
Austria-Hungary	.	.	.	.	.	.	„ 1,530,000
Italy	.	.	.	.	.	.	„ 428,000

It is difficult to obtain precise figures of a final and authoritative character of the casualties suffered by the nations which took part in the Great War. This is not surprising. Some reports include 'missing and presumed dead.' Many of the deaths were from disease, and those who died of their wounds shortly afterwards might be included either in the list of killed or in the list of wounded. Nor could there be in the nature of things any rigid system classifying the wounded according to the severity of their wounds. Excellent as were the English hospitals, they were not all managed on exactly the same plan, being largely organized by voluntary effort and supported by voluntary contributions. Their total expenses were enormous; but I am not aware of any publication showing the

Country	Total Enlistments	Deaths from all Causes			Wounded			Total Casualties
		Officers	Other Ranks	Total	Officers	Other Ranks	Total	
Great Britain and Ireland .	6,211,427	43,480	701,222	744,702	85,117	1,608,415	1,693,262	2,437,964
Canada . . .	683,170	2,887	53,738	56,625	6,347	143,385	149,732	206,357
Australia . . .	413,453	2,862	56,468	59,330	6,304	145,867	152,171	211,501
New Zealand . . .	227,325	735	15,401	16,136	1,668	39,061	40,729	56,865
S. Africa. . .	136,373	481	8,351	8,832	792	14,361	15,153	23,985
Newfoundland. . .	9,869							
Other Colonies. . .	135,337							
Total, Dominions and Colonies . . .	1,605,527	6,965	133,958	140,923	15,111	342,674	357,785	498,708
India	1,679,416	868	60,530	61,398	1,675	69,184	70,859	132,257
Grand Total . . .	9,496,170	51,313	895,710	947,023	101,903	2,020,003	2,121,906	3,068,929

total expenditure which British hospitals incurred in providing for the wounded during and after the Great War. Even now there are considerable numbers of men who, having lost their sight or the use of some of their limbs, are being supported in various institutions by voluntary funds and by Government pensions.

The following appeared in the *Yorkshire Post*, August 17th, 1933:

BLINDED BY THE WAR

More men than ever at St. Dunstan's

'Official figures issued yesterday by St. Dunstan's show that there are now about 2,000 cases of men who have lost their sight as a result of active service during the Great War, and all of them are under the care of St. Dunstan's.

'Although it is over 19 years since the War began, new cases are still regularly coming in. Almost invariably, it is stated, these new cases are those of men whose eyesight was slightly affected by the War and who have now gone completely blind. During the last recorded period of 12 months there were 33 of these cases, compared with 31 deaths.

'There are now more war-blinded men under the care of St. Dunstan's than ever before. At the end of the War there were about 1,500 cases. By 1921 the numbers had risen to 1,772 and, since then, there has been a gradual increase each year. It is estimated that there will be a further slight increase for some years yet, and that the "peak" has not yet been reached.

'The average age of the men under the care of St. Dunstan's is now a little over 40, and, on this basis, it has been calculated that in 20 years' time, in 1953, there will still be more than 1,300 war-blinded men living, and in 1973 no fewer than 445. It is possible that there will still be a few war-blinded men to be looked after between the years 1990 and 2000.

'At the end of the war 30,850 men were discharged from the Army with defective vision, and it is from them that most of the new cases for St. Dunstan's are drawn. In addition to its 2,000 war-blinded men, St. Dunstan's looks after 5,000 of their dependents.'

That the total number of those injured during the War must have been far more than would appear from the figures of those wounded is clear, and I should not be surprised if the true proportion were similar to the proportion of accidents on the roads, where between three and four accidents in a hundred are fatal. Thus in 1933, on the roads of Great Britain, about 7,000 people were killed and about 200,000 injured. Of the non-fatal injuries, about 30 per cent. were of a minor character, consisting of shocks, cuts, or bruises, involving in the case of wage-earners absence from work for only a few days, after a brief treatment in a local

surgery or hospital. In 50 per cent. of the cases there was temporary disablement, with broken limbs or severe superficial injuries, from which recovery was more or less complete. In the remaining 20 per cent. there was permanent (partial or complete) disablement. But these are only estimates or guesses, as there are no complete statistics or official returns available. On the roads, apparently, accidents are only entered as fatal where death follows almost immediately, and a coroner's inquest is held.

The following quotation is from the *Manchester Guardian* of January 27th, 1934:

'In the whole of the Boer War, which spread over the years 1899 to 1902, the total British loss set down as "killed in action" amounted to 5,774; the wounded were 20,811. In the year 1933 there were killed on the roads of this country 7,125 persons and 216,401 were injured. In piping times of peace, then, there are more people killed, and far more people injured, in a single year than fell in the whole course of a campaign that shook the British Commonwealth to its foundation.'

In November, 1927, official figures were published by the British Legion authorities in regard to British War losses: 160,000 wives lost husbands; 300,000 children lost fathers; 39,000 men lost limbs; 2,100 men were totally blinded; 6,187 men lost their reason; 4,060 men became epileptics; 42,000 men contracted tuberculosis.

An enormous amount of work in awarding pensions to disabled officers and men, and to the dependants of soldiers who perished, has fallen upon the Ministry of Pensions. According to its Fourth Annual Report (Cmd. 244, 1921) the awards in force at the end of March, 1921, numbered 1,760,000. Of these, 1,200,000 were for disabled officers or men, and 560,000 for dependants of deceased officers and men. A large annual decline in the cost of War Pensions is due mainly to the death of disabled men, and partly to the remarriage of widows. In some cases, also, the burden on the Exchequer has been relieved by the recovery of temporary pensioners. Thus the total expenditure of the Ministry of Pensions in pensions, gratuities, and allowances to officers, men, nurses, and dependants fell gradually from 81 millions sterling in 1922 to 49 millions in 1931.

Approximate figures for the number of disabled British soldiers in receipt of pensions were published in 1923 by the International Labour Office, with comparative figures for the other leading belligerents. The numbers for Britain were 1,170,000; for Germany

1,537,000; for France 1,500,000; and for the United States 157,000. Comparative figures for expenditure on War pensions were given in the House of Commons on July 13th, 1927, by the Parliamentary Secretary to the Ministry of Pensions as follows: Great Britain, £66,500,000; Germany, £60,000,000; United States, £46,000,000; France, £37,500,000.

During the first year of the Great War, in an attempt to estimate and forecast its cost in men and money, I remarked:

‘The valuation of human life and suffering in terms of money is a painful exercise. A cold calculation of the value of a free man as if he were a slave, a mere instrument of production, is revolting to our feelings; but some notion of the magnitude of the economic loss may be formed from the calculation of a French actuary, that the average value of a British soldier is not less than £800. How the value of a young man of military age who has been withdrawn from productive work to take part in war should be computed is not easy to decide; but supposing such a man to be killed, or incapacitated for further work by severe wounds or by disease contracted during the campaign, the loss might perhaps be assessed by ascertaining, (1) How long he would have been likely to live in health and strength; (2) What amount of taxes he was paying; (3) The cost of supporting his family, if any. Further considerations would be his purchasing power, the profits on his labour, and his savings.’

I then made a preliminary valuation of the losses in men on the assumption that the War would last for a year; and I based this valuation upon the assumption that a British soldier, who should be killed or incapacitated from further work, would, on the average, represent an economic loss to the country of £600.

Since the War ended, I have consulted other authorities, and am under an obligation to my friend, Captain Alan Thomas, the Secretary of the Economic Committee of the League of Nations Union, who wrote to me (May 25th, 1933):

‘I think the best estimates of the average social value of the individual in the leading countries are those given by the French actuary, M. Barriol, just before the war. They were pretty generally accepted. For example the average social value of individuals for the following countries were:

England	.	.	£828
U.S.A.	.	.	£944
Germany	.	.	£676
France	.	.	£580
Italy	.	.	£440
Russia	.	.	£404

If capital value can be assigned to human beings at all, I imagine that this value would certainly now be much above what it was before the war, not only owing to scarcity of men, but also to depreciation of money. Consequently I do not think there can be any question that £1,000 would not be an over estimate now of the social value of the average British male citizen in the prime of life.'

In summing up the economic losses resulting from the casualty lists, I am inclined to think that the loss on disabled men must be greater than on those killed outright. Taking the number of British killed and disabled at the round figure of two millions, and assuming the average loss to be £1,000 per man, the total economic loss would amount to two thousand millions sterling.

Some statisticians have attempted to trace the effects of the War on the births and deaths of the civil population, who remained at home and were not enrolled in the Forces. But these studies are not very fruitful or important so far as Great Britain is concerned. The emigration and immigration statistics are more relevant. For the five years preceding the War, the United Kingdom had an average annual balance of emigration over immigration of about 173,000 persons. In 1914, however, there was a net balance of immigrants over emigrants amounting to 108,688 persons—due mainly to the influx of Belgian and other refugees. During the remaining years of the War, both emigration and immigration were reduced to very small dimensions, but for the whole period there was a small balance of immigration. The year 1919 saw a restoration of an emigration balance of 152,642—due partly to returning refugees; and in 1920 there was a further balance of 166,686. During the War the people of Great Britain never suffered from anything in the nature of famine, though food was rationed. Some diseases, especially influenza, were more destructive than in normal times; others less so. For the first four years of the War, the death rate was about normal, the average being 14·6 per thousand. But in the last year of the War, owing to the 'black' influenza, it rose sharply from 14·4 in 1917 to 17·6 in 1918, the total deaths being 486,965 in 1917 and 587,828 in 1918. Over 100,000 deaths were caused in the last quarter of 1918 by the influenza epidemic, which continued its ravages in the early part of the following year. Whether this unusually virulent form of influenza should be regarded as a direct consequence of the War remains undecided.¹

¹ For an official account of the epidemic see 'Report on the Mortality from

But no such uncertainty attaches to air raids. Here we have the official statement of the War Office in March, 1922, showing the losses suffered by the civil population of Great Britain from the bombs dropped by German airships and aeroplanes during the War. The alarm caused was out of all proportion to the losses inflicted. The small number of killed (1,117) is rather surprising in view of the confident predictions as to the efficacy and danger of aircraft, and the apprehensions freely circulated by the sensational press of the probability or possibility that London and other great towns are likely to be wrecked more or less completely in a future war.

CASUALTIES CAUSED BY AIR RAIDS AMONG THE CIVIL POPULATION
OF GREAT BRITAIN 1914-18

Airship Raids:				
Killed:	Men . . .			217
	Women . . .			171
	Children . . .			110
				498
Injured:	Men . . .			587
	Women . . .			431
	Children . . .			218
				1,236
Aeroplane Raids:				
Killed:	Men . . .			282
	Women . . .			195
	Children . . .			142
				619
Injured:	Men . . .			741
	Women . . .			585
	Children . . .			324
				1,650

Adding these totals together, we find that the numbers killed in all these raids were 1,117, and the numbers injured were 2,886. Many civilians were drowned at sea in consequence of the German submarine campaign. Of these tragedies, by far the worst was the sensational sinking of the *Lusitania* off the Irish port of Kinsale

Influenza in England and Wales during the Epidemic of 1918-19', issued as a Supplement to the 81st Annual Report of the Registrar-General.

on May 7th, 1915, when 1,198 of the passengers and crew were drowned.¹

* * * * *

By way of epilogue to a book in which I have attempted to sum up the observations and meditations of twenty years on the greatest tragedy of modern times, I would refer to two remarkable paragraphs in Book I, Chapter V of John Stuart Mill's '*Political Economy*'. The title of the Chapter is 'Fundamental Propositions respecting Capital.' My old friend and preceptor, Professor F. Y. Edgeworth, who lectured on Mill when I was studying economics at Oxford, described the subject of this Chapter in a sentence which illustrates the optimism of the Victorians. He said that the chapter dealt with 'controversies which have now lost their interest.'

Every one then believed in peace, progress, and the gradual spread of ordered liberty and civilization throughout the world. After showing how capital—which may be defined as wealth employed in production—is the result of saving, yet is itself more or less rapidly consumed and destroyed, whether it take the form of machinery, factories, or houses, Mill turns to the subject of war and its effects upon the material progress of nations. He had witnessed the Napoleonic War and its consequences, and was so much impressed by their transitory nature that he wrote as follows:

'This perpetual consumption and reproduction of capital affords the explanation of what has so often excited wonder, the great rapidity with which countries recover from a state of devastation; the disappearance, in a short time, of all traces of the mischiefs done by earthquakes, floods, hurricanes and the ravages of war. An enemy lays waste a country by fire and sword, and destroys or carries away nearly all the moveable wealth existing in it: all the inhabitants are ruined, and yet in a few years after, everything is much as it was before. This *vis medicatrix naturae* has been

¹ The following references will aid those who wish to study the subject of this chapter: (1) *Statistics of the Military Effort of the British Empire during the Great War*; published by the War Office, 1922. (2) *Direct and Indirect Costs of the Great World War*, by E. L. Bogart; issued by the Carnegie Endowment and published by the Clarendon Press, Oxford, 1920. (3) *What Would be the Character of a New War?*; published by P. S. King and Son, Ltd., 1931; see especially Chapter VII. (4) *Losses of Life caused by War*, by Dumas and Petersen; published by the Clarendon Press, Oxford, for the Carnegie Endowment, 1923. (5) Articles by M. Barriol on 'La Valeur Sociale d'un Individu', which appeared in the *Revue Economique Internationale* in 1910 and 1911.

The Ministry of War Pensions and the Imperial War Museum are repositories of much statistical and other information regarding the British wounded in the Great War.

a subject of sterile astonishment, or has been cited to exemplify the wonderful strength of the principle of saving, which can repair such enormous losses in so brief an interval. There is nothing at all wonderful in the matter. What the enemy have destroyed, would have been destroyed in a little time by the inhabitants themselves: the wealth which they so rapidly reproduce would have needed to be reproduced and would have been reproduced in any case, and probably in as short a time. Nothing is changed, except that during the reproduction they have not now the advantage of consuming what had been produced previously. The possibility of a rapid repair of their disasters, mainly depends on whether the country has been depopulated. If its effective population have not been extirpated at the time, and are not starved afterwards; then, with the same skill and knowledge which they had before, with their land and its permanent improvements undestroyed, and the more durable buildings probably unimpaired, or only partially injured, they have nearly all the requisites for their former amount of production. If there is as much of food left to them, or of valuables to buy food, as enables them by any amount of privation to remain alive and in working condition, they will in a short time have raised as great a produce and acquired collectively as great wealth and as great a capital as before; by the mere continuance of that ordinary amount of exertion which they are accustomed to employ in their occupations. Nor does this evince any strength in the principle of saving, in the popular sense of the term, since what takes place is not intentional abstinence but involuntary privation.'

If a rapid recovery from the devastations of war is the rule, we may agree with Mill that a country which has been depopulated or reduced in strength and numbers by starvation will be an exception. But are not the exceptions very numerous, and is not the process of recovery slower than he or Dr. Chalmers (from whom Mill borrowed his 'simple explanation') suppose, even in cases where the population has not suffered much from either death or disease? The case which Mill had especially in mind was Great Britain's recovery from the effects of the Napoleonic Wars; but even twenty-five years after Waterloo the state of the working classes in all parts of the country was so deplorable that we still talk of the 'Hungry Forties'. It is true that the devastated areas of France and Belgium were restored, with the help of German Reparations, quite rapidly after the conclusion of the Great War; but the condition of all the belligerent countries in Europe in 1934—though their total population is larger than it was at the outbreak of the War—is far from indicating general recovery. The burden of debts, taxes, depreciated currencies, trade depression, and abnormal unemployment hangs heavily over them all. The United

States, whose losses in men were negligible, is still (at the beginning of 1934) struggling with economic and financial troubles on a scale for which experience affords no parallel or precedent. Readers of this book may decide for themselves whether the condition of Great Britain sixteen years after the conclusion of hostilities can be cited in support of Mill's theory. I am inclined to think that the moral evils due to the losses and miseries endured by our men at the front are still in operation, and that economic inefficiency, political ineptitude, and a certain measure of social degeneracy must be traced to this cause, which contributes along with war debts, war taxes, war tariffs, and quotas to an abnormal mass of demoralizing unemployment.

INDEX

A

Agriecultural Marketing Act, 45.
 Agrieulture, 72-3, 200-1.
 Air Raids, 302.
 Aitken, Sir Max, *see* Beaverbrook.
 America, *see* United States.
 American Independence, War of, 86.
 Amery, Captain L. S., 90.
 Angell, Sir Norman, 95, 96, 101.
 Anti-Embargo League, 116 sqq.
 Argentina, 267, 274.
 Armaments, 96, 200.
 Armistice (1918), 19, 116, 168.
 Arnold, Lord, 166, 173.
 Asquith, H. H. (Earl of Oxford and Asquith), 3 sqq., 11 sqq., 15-16, 23, 24, 31, 37, 43, 47 sqq., 86 sqq., 107, 154, 179, 185, 187, 196, 199.
 Austria-Hungary (War losses), 296.

B

'Balance of Trade', 230, 232.
 Baldwin, Stanley, 29, 30, 31, 169, 185, 189, 192 sqq., 199, 202, 210, 242.
 Balfour, Lord, 11, 31.
 Balfour Committee and Reports, 260 sqq.
 Balfour Note, 192.
 Barriol, M., 300, 303 (footnote).
 Beaverbrook, Lord, 15, 33.
 Beet Sugar Subsidy, 200-1.
 Belgium (neutrality and invasion of), 5-6, 8.
 Besant, Mrs., 59.
 Birkenhead, Lord, *see* F. E. Smith.
 'Black and Tans', 48, 50.
 Blackstone, 113, 129, 135.
 Board of Trade (after the War), 116-18.
 Boer War, 74, 86, 251, 299.
 Bogart, E. L., 295, 296, 303 (footnote).
 Bolshevism, 19, 31.
 Boom, Post-War, 174-5.
 Boot and Shoe Trade, 279-80.
 Bowley, Professor A. L., 290, 291.
 Brazil, 267, 274.
 Bread, Subsidy on, 165
 Bryce Committee, 8.
 Buckmaster, Sir Stanley, 107-8.
 Budgets, 143 sqq.
 (of November, 1914) 145-7.
 (of May, 1915) 144, 147-50.
 (of September, 1915) 150-5.
 (of April, 1916) 144, 155-9.
 (of May, 1917) 159-62.
 (of April, 1918) 162-7.

 (of 1919) 168-74.
 (of 1920) 174-9.
 (of 1921) 180-6.
 (of 1922) 186-90.
 (of 1923) 193-7.
 (of 1924) 197-202.
 (of 1925 to 1929) 203 sqq., 210 sqq.
 (of 1925) 207-8, 211-12.
 (of 1926) 208, 212.
 (of 1927) 208, 212.
 (of 1928) 208-10, 212.
 (of 1929) 210.
 (of 1930 to 1933) 216-17.
 (of 1930) 217-20.
 (of April, 1931) 220-2.
 (of September, 1931) 223-6.
 (of 1932) 226-9.
 (of 1933) 229-33.
 Burns, John, 6, 10.

C

Cable Censors, 105.
 Campbell, J. R., 30.
 Capital Levy, 166, 173, 253.
 Carson, Sir Edward, 4, 47.
 Cecil, Lord Hugh, 92, 172-3.
 Cecil, Lord Robert, 26-7, 51.
 Censorship of Press, *see* Press.
 Chaffee, Professor Zeehariah, 103 (footnote).
 Chamberlain, Sir Austen, 26, 27, 169 sqq., 180 sqq.
 Chamberlain, Neville, 195, 226 sqq.
 Chelmsford, Lord, 58, 60.
 Children (effect of War on), 75-6.
 Chile, 267, 275.
 Churehill, Winston, 11, 14-15, 16 (footnote), 24, 105-6, 203 sqq., 242-3, 285.
 Civil Population (War losses), 301-3.
 Civil Service, 69-70.
 Clark, John Bright, 64-8, 279-80.
 Class, Distinctions of, 70-2, 75, 77.
 Clemenceau, 11, 17.
 Clifford, Dr., 93.
 Clynes, J. R., 23, 39.
 Coal industry, 206, 283; (strike, 1921) 180; (strike, 1926) 206, 283.
 Coalition Governments (1915) 4, 11 sqq., 37, 86, 150; (1916) 4, 14 sqq., 37; (1918) 22-29, 168-70, 189, 265.
 Coke, on unlawful imprisonment, 133.
 Cole, G. D. H., 42.
 Collins, Sir Godfrey, 200.
 Collins, Michael, 52.

Colwyn Committee and Report, 238, 247-9.
Common Sense, 115.
 Communism, 31, 39, 40, 41, 84, 102.
 Communist Party of Great Britain, 41.
 Compulsory Service, *see* Conscription.
 Conscientious Objectors, *see* Conscription
 and Pacifism.
 Conscription, 3, 8, 10-11, 11-14, 38, 40, 49,
 86 sqq., 282, 285.
 Conservative Party, 3 sqq., 27 sqq., 35,
 105, 189, 195-6, 203 sqq.
 Conventions, Social, 76, 80, 82.
 Conversion Schemes (1921) 182-3, 256;
 (1926) 214; (1928) 214; (1932) 230-1, 255.
 Cosgrave, W. T., 52.
 Cotton Trade, 256, 267.
 'Coupon' Election, 16, 20, 22, 39, 168.
 Craddock, Sir Reginald, 58, 59.
 Crewe, Lord, 173.
 Cripps, Sir Stafford, 44.
 Crisis of 1931, 223-4.
 Curreney, 240. *See* Gold Standard.
 Curreney Note Redemption Account, 213.

D

D'Abernon, Lord, 148.
 Dail Eireann, 49, 51.
Daily Mail, 99.
 Dawes Plan, 252.
 Dearle, Dr., 296.
 Death Duties, 172.
 Defence of the Realm Acts, 123 sqq. *And*
see D.O.R.A.
 Deflation, 195.
 Denbigh, Earl of, 93-4.
 Depression (1931), 220, 239, 284.
 De-rating Scheme, 206-8.
 Derby, Earl of, 13, 89.
 De Valera, Eamonn, 49, 51-2.
 Diarehy (in India), 60.
 Dillon, John, 3, 89.
 Disarmament, 96.
 Dollar Prices (1913-23), 261-2.
 Dominions (defined) 32; (during and after
 War) 53 sqq.
 D.O.R.A., 38, 103 sqq., 117, 119 sqq.
Drapeau Bleu, Le, 295-6.
 Drink, Decrease of, 67; (during War) 148.
 Duke, Mr., 87.
 Dyestuffs (Import Regulation) Act, 1920,
 27.

E

Economic Cost of War, 300-1.
 Economy (in public and private expendi-
 ture), 149, 155, 167, 173, 175, 179, 183
 sqq., 202, 204-5, 222, 224, 239 sqq.

Economy Act (1926), 213.
 Edgeworth, Professor F. Y., 303.
 Education, 66, 70-1.
 Elections, General (1918 'Coupon') 16, 20,
 22, 39, 168; (1922) 28; (1923) 30, 196;
 (1924) 30-1; (1929) 32; (1931) 33-4, 35,
 227.
 Elliot, Major, 45.
 Embargoes, 27, 116 sqq., 259.
 Emigration, 66, 301.
 Employment, 281 sqq. *And see* Unemploy-
 ment.
 Enlistments (Statistics), 296, 297.
 Excess Profits Duty, 152-3, 157, 159-60,
 161, 171-2, 178-9, 181-2.
 Exchange Equalization Account, 256-7.
 Expenditure, 234 sqq. *And see* Budgets.
 Export Trade, 259 sqq.

F

Fascism, 19, 40, 41, 102, 250.
 Fisher, Lord, 11.
 'Flappers', 285-6.
 France (War losses), 296; (Pensions), 300.
 Free Trade, 3, 27, 30, 31, 35, 58, 78, 196,
 198-200, 219-20, 226.

G

Gandhi, Mahatma, 60.
 Geddes, Sir Auckland, 117.
 Geddes, Sir Eric, 242, 252.
 Geddes Committee, 29, 184, 241-2.
 General Elections, *see* Elections.
 General Strike, *see* Strike.
 George, C. Oswald (*British Budgets*), 147,
 149, 167, 181, 188, 196, 233.
 George, Lloyd, 4, 7, 12, 14 sqq., 22 sqq., 28,
 32, 35, 37, 39, 40, 43 (note), 45, 51, 90-1,
 93, 144, 145-50, 159, 168, 189, 196, 252,
 254, 285.
 Germany, 5 sqq., 19, 86, 100, 162, 175, 250,
 252, 258, 272, 296, 300.
 Gladstone, Lord, 293-4.
 Gladstone, William Ewart, 5, 226.
 Gold (rise in value of), 193, 216-17, 225,
 236, 293.
 Gold Standard, 191, 192, 207, 223; (aban-
 donment of, 1931) 33, 225-6, 250.
 Graham, John W., 93 (footnote).
 Greenwood, Sir Hamar, 48, 50-1.
 Grey, Sir Edward (Viscount), 5, 11, 14, 16
 (footnote), 18, 37, 86-7.
 Griffith, Arthur, 52.

H

Habeas Corpus Acts, 110, 111, 113, 132-3,
 135.

Haldane, Lord, 11, 109.
Hallam, on Magna Charta, 133.
Halsbury, Lord, 109.
Hampshire, H.M.S., 14.
Hardie, F. M., 97, 100.
Harington, General, 28.
Harvey, T. Edmund, 87.
Henderson, Arthur, 12, 23, 37, 39, 51, 89, 146.
Hildesley, Alfred, 104 (footnote).
Hitler, Adolph, 100.
Holt, R. D., 91.
Home Rule (for Ireland) 3, 47 sqq., (for India) 59.
Hone, C. R. (Bishop of Pontefract), 80-5.
Hoover Moratorium, 252.
Horne, Sir Robert, 180 sqq., 205, 241.
Hours (of labour), 68.
House, Colonel, 19.

I

Immigration, 301.
Imperial Conferences, 27, 29, 31-2, 55, 198.
Imperial Defence Committee, 53.
Imperial Preference, 27, 29, 30, 34, 55, 171, 198-200, 212, 227, 229, 232.
Import Duties Act (1932), 227.
Import Trade, 259 sqq.
Imports, Licensing of, 116-18.
Inchcape, Lord, 242.
Income Tax, *see* Budgets and Taxation.
Independent Labour Party, 7.
Independent Liberal Party, 22, 24, 172.
India, 53 sqq., 265, 266-7, 276.
Inflation, 163, 170.
Influenza (1918 epidemic), 301; (in India), 59.
Inter-Imperial Relations Committee, Report of, 31-2.
Ireland, 27, 47 sqq., 56.
Irish Free State, 47.
Irish Home Rule Party, 22, 47. *See* Home Rule.
Irish Nationalist Party, 3-4, 12, 47, sqq.
Irwin, Lord, 60.
Italy (War losses), 296; (Pensions), 300.

J

Japan, 96, 100, 265, 266, 267, 275-7.
Jefferson, Thomas, 269 (footnote).
Joint Industrial Councils, 38-9.
Joynson-Hicks, W., 91-2.

K

Kaiser, the, 20-1, 23.
Kellog Pact, 96, 100.

Kerensky, 39.
Keynes, J. M., 45, 231, 232.
Killed (Statistics of), 295 sqq.
Kitchener, Lord, 11, 14, 88, 148, 253.
'Knock-Out Blow' policy, 7, 19, 93-4.

L

Labour Leader, 115.
Labour Party, 3, 22, 24, 28, 30 sqq., 35, 37 sqq., 173, 196 sqq., 216 sqq.
Labour Policy, 44, 45, 243-4. *See* Socialism.
Lambert, George, 179.
Lambert, Richard C., 14 (footnote), 90 (footnote).
Lambeth Conference (1930), 84, 85.
Lansbury, George, 35.
Lansdowne, Marquis of, 3, 7, 11, 15, 17-19, 47-8, 57, 73, 93-4, 150.
Latvia, 270.
Lausanne Conference, 252.
Law, Bonar, 3, 11, 13-14, 15 sqq., 22 sqq., 28-30, 37, 39, 47, 108-9, 154, 159 sqq., 168-9, 180, 189, 195, 255.
League of Democratic Control, 7.
League of Nations, 17, 54, 96, 100, 102.
League of Nations Union, 24 (footnote), 84, 95-6 (footnote).
Lenin, 39.
Lettres de cachet, 130.
Liberal Party, 3 sqq., 11 sqq., 22, 24-5, 27, 28, 30 sqq., 35, 37, 47, 150, 154, 173, 196.
Liberty, 40, 86, 92; (of opinion) 98, 131.
See D.O.R.A. and Zadig Case.
Lloyd George, *see* George.
Locarno Pact, 54, 96, 100.
Locker-Lampson, G., 240.
Loreburn, Lord, 7, 17, 109, 150.
Ludendorff, 19.
Lusitania, 8, 302-3.
Luxemburg (Neutrality of), 5.

M

MacDonald, Ramsay, 3, 6, 7, 10, 12, 17, 23, 30, 33, 35, 37, 43, 44, 201, 229, 244.
Maclean, Sir Donald, 24, 183, 217, 222, 229, 244.
Magna Charta, 111, 112, 132-4.
Maitland, F. W., 113, 130.
Mallet, Sir Bernard (*British Budgets*), 147, 149, 167, 173, 181, 182, 183, 188, 196, 222, 233.
Manchester Guardian, 6, 102, 115, 299.
Marx, Karl, 40.
Massingham, H. W., 105, 110, 111.
Maurice, General Sir Frederick, 16.

Maxton, James, 35.
 May, Sir Erskine, 132.
 May Committee and Report, 33, 217, 222, 244.
 McKenna, Reginald, 12, 23, 27, 105, 150-9, 254.
 McKenna Duties, 27, 153-4, 171, 198, 199, 211, 212.
 Middleton, Lord, 149-50.
 Military Service Act (First), 13, 38, 87, 89, 90.
 Military Service Act (Second), 13, 91-3.
 Mill, John Stuart, 303-5.
 Ministry of Munitions, 12, 38.
 Montagu, Edwin, 57, 59, 61.
 Montague, C. E., 73-4.
 Morality, 67 sqq., 76, 79, 82, 286-7.
 Morel, E. D., 86.
 Morley, John (Viscount), 5-6, 10, 57.
 Mosley, Sir Oswald, 41.
 Motor Cars, 66-7, 72, 74, 176, 298-9.
 Muir, Ramsay, 53, 54.
 Munition workers, 285-6.
 Mussolini, 78.

N

Nation, The, 6, 115.
 National Debt, 163, 166, 170, 182, 187, 221-2, 231, 234, 247, 251 sqq.
 National Government (1931), 33 sqq., 44, 52, 222 sqq., 244.
 National Registration Act, 12-13, 89.
 Nationalism, 78; (economic) 266-7, 271.
 Nationalization, 38.
 Nazi-ism, 40.
News Chronicle, 100-2.
 Newspapers and the War, 5-7, 15. *See* Press, Censorship of.
 Newton, Lord (*Life of Lord Lansdowne*), 18.
 Nichols, Beverley, 101 (footnote).
 Norman, Montagu, 192-3.
 Northcliffe, Lord, 5, 12, 15, 103.
 Northcote, Sir Stafford, 209.

O

Orangemen, 47.
 Ottawa Conference (1932), 55, 229.
 Oxford, Earl of, *see* Asquith.
 Oxford 'Group' Movement, 85.
 Oxford Union Society (debate on Pacifism), 97 sqq.

P

Pacifism, 10-11, 37, 86 sqq., 95 sqq.
 Party Politics (cessation of, during War) 8-9, 12; (interest in) 67, 71, 73.
 Peace, Signing of, 116.

Pensions, 299-300.
 Petition of Right, 134.
 Playne, Caroline E., 8 (footnote).
 Plunkett, Sir Horace, 49.
 Poland, 42.
 Prerogative, Royal, 126.
 Press, Censorship of, and Press Bureau, 40, 86, 88, 103 sqq.
 Price Movements (in England) 145, 151, 188, 193, 206, 216-17, 220, 225-6, 229, 236-7, 239, 260, 262-3; (in India) 60-2; (in United States) 261-2.
 Professionalism, 79.
 Proportional Representation, 3, 23, 35-6.
 Protection, 3, 27, 30 sqq., 34, 35, 52, 55, 73, 173, 184-6, 195-6, 208, 210 sqq., 226 sqq., 230 sqq., 265, 267 sqq., 278, 284; (in India) 58, 62. *See* McKenna Duties, and Safeguarding.
 Public Works, 67.

Q

Quakers, 10, 86, 87, 98.
 Quotas on Imports, 116 sqq.; 270 sqq.

R

'Raids' on National Funds (by Mr. Churchill), 212 sqq.
 Redmond, John, 3, 12, 48, 49.
 Religion (effect of War on) 68, 69-70, 80-5, 90.
 Reparations, 191, 216-17, 248, 249, 252, 272.
 Representation of the People Act (1918), 9-10.
 Restrictions on Trade, 266 sqq.
 Revenue, *see* Budgets.
 Riddell, Sir George, 106.
 Road Casualties, *see* Motor Cars.
 Roberts, F. O., 243-4.
 Royal Commission on Income Tax, 177-8.
 Royal Commission on Unemployed Insurance, 222.
 Runciman, Walter, 34, 35, 214, 229.
 Rupee, 60-1.
 Russia, 16, 39, 42, 84, 102, 162, 201, 237, 248, 270, 300.

S

Safeguarding Duties, 32, 208, 211, 212.
 Safeguarding of Industries Acts (1921) 27, 184-5, 198, 212; (1925) 212.
 St. Aldwyn, Lord, 150.
 St. Dunstan's, 298.
 Samuel, Sir Herbert, 35, 166, 229.
 Scott, Leslie, 104 (footnote).

Shaw, Lord (his Judgement in Zadig Case), 111 sqq., 120 sqq.
 Shaw, Bernard, 40, 41.
 Shipping, 230, 271.
 Silver (in India) 60-1; (coinage in England) 195.
 Simon, Sir John, 13, 23, 25, 34, 35, 43, 51, 60, 87, 109, 117, 118, 138, 185, 229.
 Sinclair, Sir Archibald, 229.
 Sinking Fund, 147.
 Sinn Fein, 22, 25, 47 sqq.
 Slump (post-war), 187; (1931) *see* Depression.
 Smith, F. E. (Lord Birkenhead), 89, 106, 107, 111.
 Smith, Harold, 106.
 Smith, Lees, 91.
 Snowden, Philip (Viscount), 3, 7, 10, 12, 22-3, 33, 37, 44, 89, 92, 161, 194-5, 197-202, 216 sqq., 229, 244.
 Social Services, 67, 70.
 Socialism, 30 sqq., 37 sqq., 173.
 Socialist International, 39.
 South African War, *see* Boer War.
 South America (trade with), 226-7, 273-5.
 Soviet, *see* Russia.
 Standard of living, 68, 70, 71, 77, 280.
See Wages.
 Star Chamber, 113, 130.
 Stock Exchange, 146.
 Stockholm Conference, 39.
 Strike, General (1926), 43, 206, 283.
 Submarine Campaign (German), 258.
 Subsidies (on Bread) 165; (on Coal) 206; (on Shipping) 271; (on Sugar Beet) 200-1.
 Sugar Beet Subsidy, 200-1.
 Supertax (Surtax), *see* Budgets and Taxation.

T

Tariff (American), 248, 268-9.
 Tariff Reform, 3, 228. *And see* Protection.
 Tariffs, 267 sqq. *And see* Protection and Free Trade.
 Taxation, 26, 68, 163, 183-4, 219, 228, 234 sqq. *And see* Budgets.
 Teachers (effect of War on), 71-2.
 Technocrats, 281, 293.
 Thomas, Capt. Alan, 300-1.
 Thomas, J. H., 44, 89.
 Tory Party, *see* Conservative Party.
 Trade (effects of War on), 258 sqq.
 Trade, Restrictions on, 266 sqq.
 Trade Unionism, 37 sqq.
 Transport, 66-7, 73, 74.
 Travel (on Continent), 73.

Treaty of Versailles, *see* Versailles.
 Triple Alliance, 43.
 Turkey, 28.

U

Ulster, 47 sqq.
 Unemployment, 77, 78, 145, 195, 201-2, 230, 281 sqq.
 Unemployment Insurance Fund, 213, 217, 218, 221 sqq., 244, 284.
 United States (Crisis in 1933) 250-4, 269; (entry into War) 16-17, 159; (Pensions) 300; (Trade) 273-4, *and see* Tariff; (War Debts) 248 sqq., *and see* War Debts; (War Losses), 304-5.
 Universities (effect of War on), 70-2.

V

Versailles, Treaty of, 19, 24, 25, 37, 54, 168, 270.

W

Wages, 38, 65, 172, 206, 236-7, 238, 282, 285-6, 290-1, 293.
 Wall Street Boom and Slump, 1928-9, 191.
 War Debt Treaty (1923), 191-3, 265-6.
 War Debts, 159, 163, 164, 191-3, 195, 208, 216-17, 225-6, 228, 231-2, 246 sqq., 268, 272.
 War Loans, 147, 150, 156, 159, 254-5.
 Washington (Naval Negotiations), 27.
 Webb, Sidney, 41.
 Westergaard, Professor Harald, 295 (foot-note).
 Whitley Committee, 38-9.
 Willis, Irene Cooper, 7 (footnote).
 Wilson, Field-Marshal Sir Henry, 187.
 Wilson, President, 19, 94, 103.
 Wireless (control of private stations), 105.
 Women (employment of, and effect of War on), 65, 69, 75, 78, 79-80, 282, 285 sqq.
 Women's Franchise, 9, 32, 67.
 Working Classes (effect of War on), 72.
 World War Debt Funding Commission, 192.
 Wounded (Statistics of), 295 sqq.

Y

Yorkshire Post, 298.
 Young, Sir E. Hilton, 195.
 Young Plan, 252.
 Younger, Sir George, 24, 185.

Z

Zadig, Arthur, 109 sqq., 119 sqq.
 Zadig Case (Judgements in), 119 sqq.
 Zinovief Letter, 31.

PRINTED IN
GREAT BRITAIN
AT THE
UNIVERSITY PRESS
OXFORD
BY
JOHN JOHNSON
PRINTER
TO THE
UNIVERSITY

C216br
v. 241

The consequences of the war
to Great Britain.

259706

C216br
v. c 243

259706

[illegible]

